OCTOBER 1977

Nation's Business

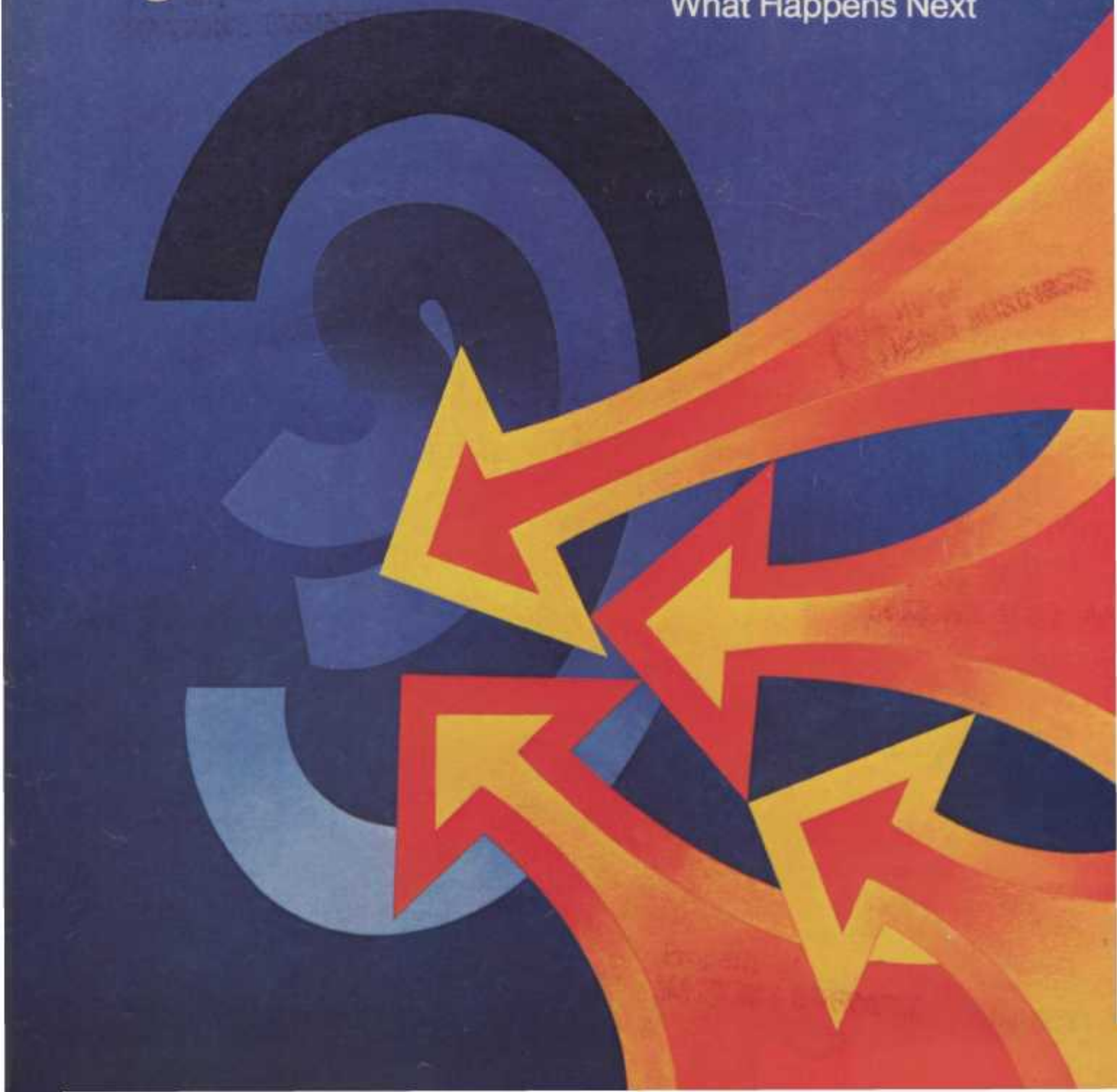
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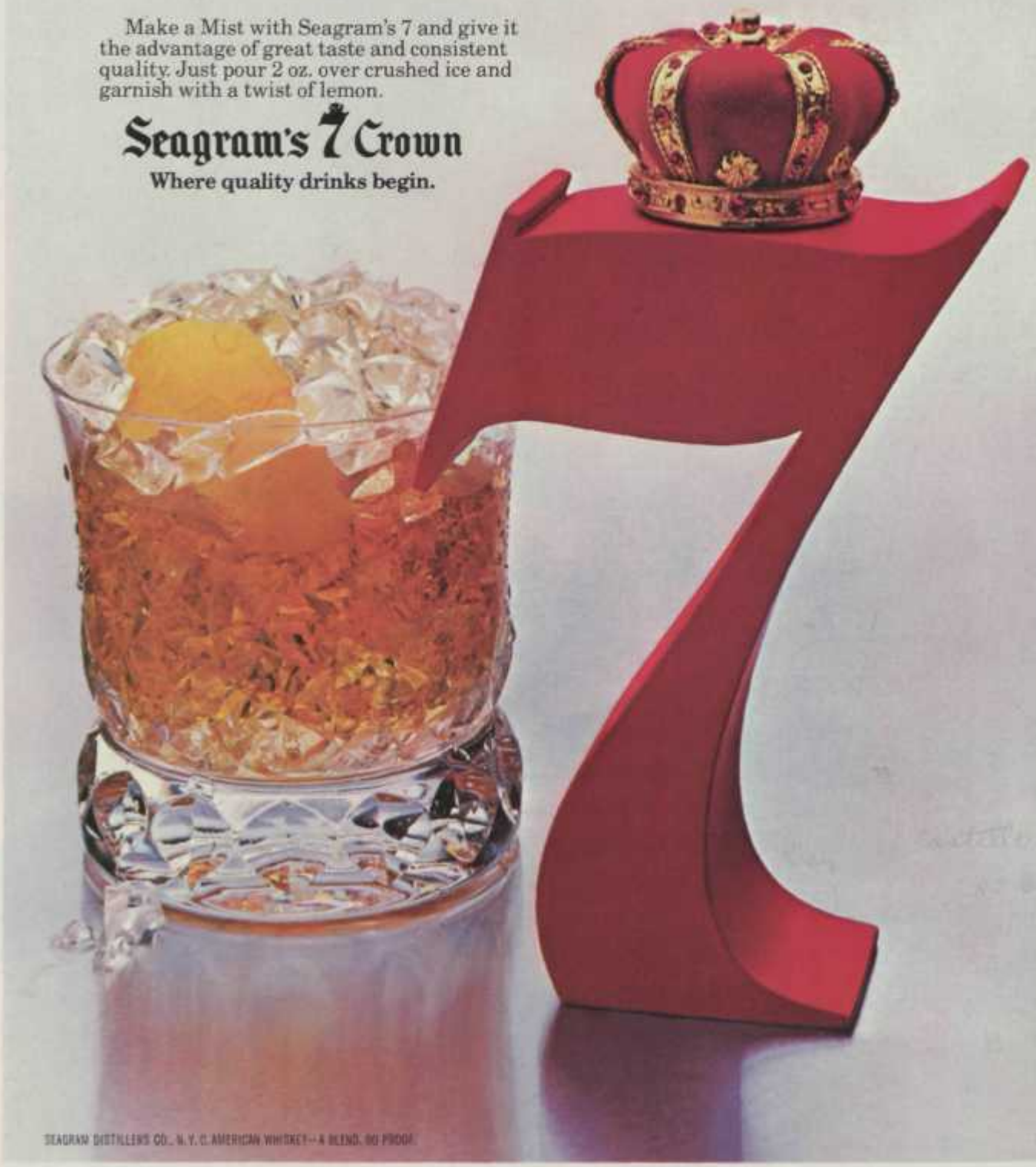


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Bell Account Representative Bob Cunningham discussed all aspects of a Long Distance phone program with Cox—answering questions about costs, flexibility of lines, what to do about weekend calls, and so forth.

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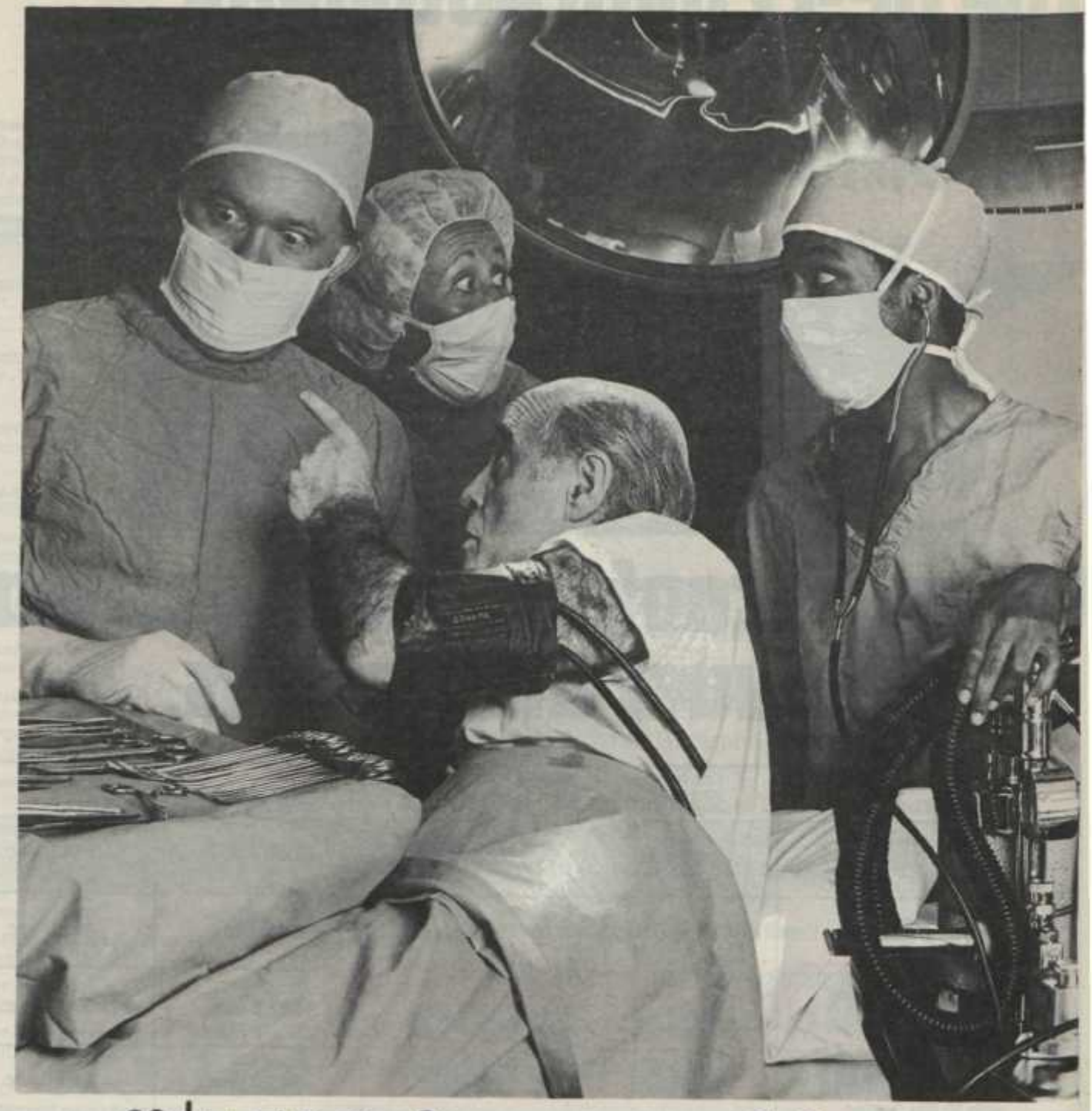
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us, who've been buying health care as if money grew on trees.

The result has been a staggering inflation of the cost of health care and health insurance.[1]

(In 1950, for example, our intrepid bargainer's hospital bill would have run about $15 a day. Today, it'll be close to $175 a day!)

Ætna is working to slow that inflation.

We're going back, claim in hand, to doctors whose charges seem out of line. Ætna did that half a million times last year—and reduced those claims by an average of $50 each.[2]

We're advocating more "same-day surgery;"[3] we're pushing "co-payment," where the actual users of health care pay for a piece of it.[4]

These positions do not always make Ætna popular, but they *do* help make health insurance affordable. Insurance costs *can* be controlled. Don't underestimate your own influence. Use it, as we are trying to use ours.

Ætna wants insurance to be affordable.

[1] "Staggering" is probably too weak a word. The share of the gross national product which goes for health services has virtually doubled in the past 15 years. The Government's share of the national health bill is now $70 billion—a sum second only to national defense.

[2] This requires Ætna knowing what the prevailing charges are for every type of medical service in every area of the country, and examining each claim against that standard. Costs vary wildly from city to city. In Philadelphia, $413 is the average surgeon's charge for the removal of a gall bladder; in Manhattan, the same operation averages $813!

[3] Many minor operations—as many as 20% of all hospital operations—can properly be performed without the patient staying at the hospital overnight. At the now-prevailing rate of $175 a day, this could mean enormous savings. Ætna also advocates peer-group review by doctors of cases of improper hospitalization—again, to prevent misuse of hospital facilities.

[4] "Co-payment" reduces premiums; it also gives the consumer a reason to *care* about health costs, and to demand reasonable ones. Today, frankly, too many consumers of health care have too little stake in controlling costs.

Ætna
LIFE & CASUALTY

Business:

By GROVER HEIMAN, Associate Editor

A LOOK AHEAD FROM WASHINGTON

Legislative Move to End "Stranger Picketing" Urged

Business, while continuing to oppose sweeping changes in the National Labor Relations Act proposed by the President and supporting an Employee Bill of Rights Act as an alternative, is also urging Congress to curb strike violence and one form of union picketing.

In an appearance before a House subcommittee considering the President's proposals, which are in line with goals of the AFL-CIO [see "Business Fights Union Power Grab," NATION'S BUSINESS, September, 1977], AMAX, Inc., Vice President Roger C. Sonnemann said Congress should act to prevent "stranger picketing."

This is the practice, primarily employed in the coalfields, in which union members not connected with a local bargaining unit come to a site and set up a picket line which can close an operation down.

Mr. Sonnemann, who testified as a witness for the Chamber of Commerce of the United States, said "stranger picketing" denies employees the right to work, strips employers of their right to operate, and even hurts unions by eroding their credibility.

Ultimately, he said, the consumer "pays the price for this illegal activity by suffering through fuel shortages and higher prices."

Mr. Sonnemann said existing remedies are inadequate because "you cannot fire and replace thousands of workers who may be participating in the strikes. Likewise, suits to collect damages are both slow and invariably lead to increased labor strife."

The business solution: Give federal courts clear authority to enforce the terms of validly negotiated collective bargaining agreements.

On the subject of violence, Mr. Sonnemann said the National Labor Relations Act should be changed to protect everyone, including innocent third parties, from union violence. He urged making violent activity an unfair labor practice so it can be dealt with by mandatory court injunctions.

Consumer Price Index Changes May Spark Clashes With Unions

There will be more than one official Consumer Price Index to choose from next year.

For six months starting in February, the Bureau of Labor Statistics will announce not only the current monthly CPI, but also the current CPI adjusted for new weights given to various types of expenditure, and a broader CPI that—while using the new weights—covers a larger percentage of consumers.

After that the current CPI, which covers urban wage earners and clerical workers who comprise 30 to 35 percent of consumers and which uses expenditure weights dating back to the 1960's, will be dropped.

The new expenditure weights will be calculated on the basis of spending in more recent years.

As for the broader CPI, it will cover 80 percent of consumers. Added to those now covered will be self-employed, unemployed, and retired persons. Rural residents, except those living inside metropolitan areas, will continue to be excluded from CPI calculations.

Establishment of more than one CPI will, of course, be of particular significance to businesses that will have CPI-indexed labor contracts. Which CPI should be used in the future? The question may produce clashes between companies and labor unions.

There is concern among people whose income is tied to the CPI, such as some union members and all federal government and Social Security pensioners, that adopting the new CPI's—especially the one covering 80 percent of consumers—will result in smaller cost-of-living increases.

Government Economists Are Under Scrutiny

The Carter administration is launching a review of the way economic decisions are made in the federal government. As a result, approximately 5,000 economists in 33 agencies will be in the spotlight.

This alarms economists both in and out of government. They fear more centralization of economic policymaking in Washington.

President Carter revealed the review in a recent memorandum to agency heads. One objective is to improve the federal government's ability to conduct economic analyses of particular industries or regions.

The agencies are to examine the current system and develop recommendations on how to eliminate overlaps of functions among agencies. In addition, the agencies are to explore ways to link economic decisions to foreign policy more effectively and recommend methods to ensure that economic decisions are actually carried out.

More Penalty-Free Guidance on Safety Set for Small Firms

Businesses which voluntarily ask for on-site job safety and health consultations have a better chance to get them from the states now.

Until Aug. 1 this no-cost service was available from 22 states on a 50-50 funding arrangement between the federal and state governments. Since then the funding has been 90 percent federal. The Occupational Safety and Health Administration made the change to induce more states to offer the service.

Priority is being given to small firms that want the service.

The new funding system not only includes the 35 states which have federally approved job safety-health programs that they administer, but also covers states which don't have approved programs or any programs at all. OSHA itself administers the job safety and health law in these states. OSHA chief Eula Bingham says they too may qualify for the 90 percent funding if they meet OSHA stipulations.

Under current law OSHA can't offer the on-site service without issuing citations for any hazards observed during a consultation. Businesses are reluctant to call on OSHA for this reason.

EPA Starts Paperwork Review

There may be fewer regulations and standards from the Environmental Protection Agency for business to contend with in the future.

Deputy EPA Administrator Barbara Blum says the agency is starting to review all existing regulations and standards as a first step toward reducing EPA-generated paperwork.

The six hefty volumes of EPA standards and regulations have never been reviewed for pertinency.

EPA advises that this isn't a one-shot operation. The process—EPA calls it a zero-base review—is to be repeated at five-year intervals.

More Stock Ownership by Employees Sought

More American employees would have a piece of the business action if a bill introduced by Sen. Jesse A. Helms (R.-N. C.) marches through Congress.

The bill, the Employee Business Ownership and Capital Formation Act of 1977 (S. 1987), would increase the number of firms likely to adopt an ESOP—employee stock ownership plan.

Sen. Helms's bill would amend the Internal Revenue Code to permit labor-intensive businesses to look with more favor on ESOP's.

Under present tax rules, labor-intensive businesses find minimal advantage in the investment tax credit available for a firm that starts an ESOP. The IRS code favors capital-intensive firms which can better use the investment tax credit.

The code would be amended under the Helms bill to allow corporations to take tax deductions for stock which they give to employees. This would give firms more money to invest in plant expansion and to meet growing federal requirements for environmental and health and safety compliance programs.

Employees could sell the stock the moment they receive it, but as long as they held ownership, the dividends would be tax-free. The same tax advantage would go to a surviving spouse.

Congress to Get Report Card on FTC Warranty Regulations

Congress and the Federal Trade Commission are going to get a joint report card on the FTC Improvement Act from the Chamber of Commerce of the United States, the Consumer Federation of America, and a federal agency.

The National Chamber and the Consumer Federation are joining the Office of Consumer Affairs of the Department of Health, Education, and Welfare in sponsoring a two-day National Warranty Update Conference in Washington Nov. 3-4. Participants will examine the extent to which the intent of the law, commonly called the Magnuson-Moss Warranty Act, has been affected by definitions and regulations the FTC has produced and imposed on business. The basic aim of the law, which was passed 2½ years ago, is to establish minimum standards for warranties.

Sponsors plan to assemble experts from the academic, congressional, business, consumer, and legal communities to report on FTC warranty policy, the needs of warrantors, and consumer expectations.

A major concern of both business and consumer groups is confusion among warrantors caused by FTC's regulations implementing the law and by the law itself. Some businesses have dropped warranties because of confusion. This bothers consumer groups because the law was specifically designed to help consumers, not deprive them of warranties.

Those interested in attending the conference may call the National Chamber at 202—659-6126 or the Consumer Federation at 202—737-3732.

GPO Is Now Charging for Federal Gobbledygook

The Government Printing Office is taking one small step for business—it is going to turn the "Federal Register" into something like a vanity press.

A vanity press is a publishing operation in which the writer pays the publisher. In this case the writers are federal bureaucrats who produce regulations that inevitably mean red tape for businesses.

Starting this month GPO will charge federal agencies $285 per page in the "Register" and $50 a page in the "Code of Federal Regulations."

Time will tell if this system of charging by the page will reduce the number of regulations or expunge the gobbledygook from those that are necessary. □

OSHA and Those Silly Little Rules

After reading "Will She Take the Nonsense Out of OSHA?" [August], I would like to commend Dr. Eula Bingham for moving to abolish some of the "silly little rules" promulgated by her predecessors. Fortunately the new assistant secretary of labor for OSHA does have the authority to do that. But when her boss, Labor Secretary Ray Marshall, says: "What we are trying to do is save lives, protect workers' health, and prevent injuries—not print regulations," we need some clarification. The basic flaw in the law has not been changed.

The Occupational Safety and Health Act does give Dr. Bingham the authority to print regulations which I must obey. Whether the regulations are Mickey Mouse or not, she has the authority to inspect my shop to see if I am obeying her rules and to fine me if I am not.

But the cold, hard fact of the matter is that the law does not give Dr. Eula Bingham any responsibility for the safety or health of my employees whatsoever.

In fact, the law does not make her responsible if the rule she forces on me actually causes harm to my employees.

I am still responsible. She is not.

As long as the head of OSHA continues to have the freedom to exercise government authority without responsibility for what happens, those of us who are responsible for employee safety should keep in mind that Mickey Mouse rules are often the least damage that benevolent bureaucrats are able to inflict upon us.

WILLIAM A. ROSCOE
President
Meason, Inc.
Erwin, Tenn.

From London with thanks

I wonder if I may say a public thank-you to the American Chambers of Commerce in Europe and to the National Chamber in Washington for the enormous help I have had from them in preparing a survey of American companies in Europe that my newspaper recently published.

My visits and inquiries and those of our correspondents invariably met a helpful response, at the cost, I'm sure, of time and trouble. The same was true of the many companies on both sides of the Atlantic that I visited.

I shall never cease to be astonished at the openness of American business. I wish we could all imitate it.

STEPHEN HUGH-JONES
Business Editor
The Economist
London, England

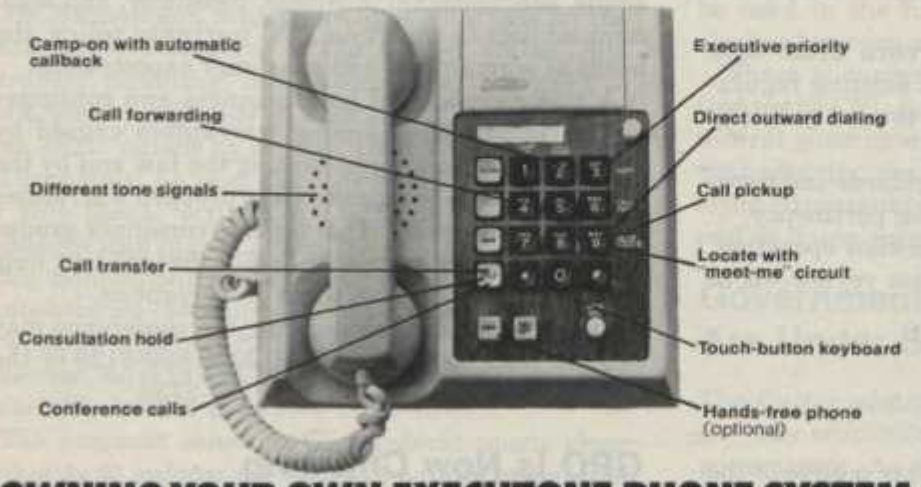
Ignoring a big buyer

It is our opinion that NATION'S BUSINESS and almost all other business periodicals fall down badly on the job of informing business people about markets and opportunities in the United States.

Some simple figures illustrate and reinforce that belief:

The U. S. government budget represents about one third of the gross national product. To put this another way, the government is the purchaser of approximately one third of all goods and services bought in this country, directly or indirectly.

Yet study the contract awards, and you will find the same company



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names again and again. Some ten percent of the ten million American businesses (of which 97 percent are classed as small business) are winning 90 percent of the work.

We have learned that this is due largely to ignorance of the huge market, nearly $2 billion a day, and ignorance of how to approach and succeed in it.

It would be difficult to name a service or type of goods that the federal government does not buy. Contracts have been let for rounding up wild horses, go-go dancing, selling prophylactics, running travel bureaus, parking cars, making bumper stickers, mailing advertising literature, answering mail and telephones, and many other things. Contracts range from $100 to more than $1 billion.

Frequently the government must almost beg companies to bid. Often it is difficult to get the minimum of three competitive bids required for many procurements.

The business publications of America would, in our opinion, do well to bring American business people more information regarding this market.

HERMAN R. HOLTZ
President
Government Marketing News, Inc.
Washington, D. C.

Dressing to succeed

Really now, calling John Molloy a "wardrobe engineer" in your article, "Dress to Succeed" [August], is a disservice to everybody, including those of us who can spell engineer. It is too bad that status has become so important that labels must be misapplied or contrived to attempt to disguise the actual job function.

ROBERT C. RING
Consulting Mechanical and Electrical Engineer
Redding, Calif.

The article on dress is an insult to anyone who can tie his own shoes. If Mr. Molloy's research is correct, and the "monkey-see, monkey-do" syndrome has reached these epidemic proportions, I submit that 1984 is closer than we realize.

If one is small-minded and vain enough to favor an employee because of similar dressing habits, one should go back to playing marbles and hopscotch with others of equal mental development.

We can be truly thankful that a successful business community is not dependent upon intellectually sterile androids wearing the gray-flannel suits and black oxfords Mr. Molloy described in the article.

The only thing the article proves is that, when you ask a haberdasher what to wear, he'll invariably tell you: "Buy expensive clothes."

WILLIAM S. JAGGER
Branch Manager
Superior Concrete Accessories, Inc.
Red Hook, N. Y.

Sen. Long's philosophy

The article about Sen. Russell Long, "He Can Influence Your Life for Years to Come" [August], is extremely heartening to this businessman. It is very seldom we read or hear of a member of the Congress having a philosophy sympathetic to the private sector of the economy or who offers constructive advice to the business community and who appears to have the best interest of the nation as a whole at heart.

The federal government's intention to break up the big oil companies and split up American Telephone and Telegraph Co. are two more examples of the meddling with the economy and the private sector to the detriment of the nation.

The fellow who recommended that all welfare activity now administered by the government be turned over to the Salvation Army, the Post Office to Sears, Roebuck, and Amtrak to Greyhound Bus Lines may have something after all. They couldn't do any worse than the present management.

PALMER G. LEWIS
Palmer G. Lewis Co., Inc.
Auburn, Wash.

A better speaker

Your "Executive Trends" article, "How to Be a Better Public Speaker" [July], made some excellent points. However, the advice missed the most important point of all. That is, the way to be a better public speaker is to speak in public.

The best learn-to-speak organization in the world is a nonprofit one, Toastmasters International, whose world headquarters is in Santa Ana, Calif.

In more than 3,500 clubs throughout the world, men and women get on their feet weekly and speak. The results have been phenomenal.

Incidentally, most chamber of commerce offices maintain a list of area Toastmasters clubs.

JAMES H. GOFF, ATM
Austin, Texas

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BY JAMES J. KILPATRICK

An Attempt to Control Thought

IN APRIL OF 1976 the U. S. Department of Justice filed a complaint against the American Institute of Real Estate Appraisers. The complaint charged, in general, that the institute and other defendants had conspired to deprive minority persons of their civil rights in violation of the Fair Housing Act of 1968. In March of 1977 the government and the institute submitted a proposed settlement order to resolve the litigation. At this writing the proposed order is still pending in U. S. District Court in Chicago.

On the surface, that is a pedestrian recital of the chronology of a lawsuit. But the settlement order in this litigation is unlike any such order this correspondent ever has seen—and this correspondent has spent 36 years covering federal courts and federal agencies. Other consent decrees purport to control action; this one purports to control thought. The proposed settlement, as the defendant institute acknowledges, is indeed "rather unique." It involves the rewriting of a textbook.

The textbook in question is "The Appraisal of Real Estate," now in its sixth edition. Few professionals would quarrel with the institute's statement that the textbook "has been universally acknowledged as the basic textbook of the real estate profession for more than 40 years." The work is used in training courses throughout the United States.

In its original complaint, the government contended that the institute's activities are part of a pattern of overt racial discrimination. Its textbook has set forth certain standards, or practices, or procedures that in the government's view are clearly erroneous. Specifically, some of the institute's teachings might have caused appraisers and lenders "to treat race and national origin as a negative factor in determining the value of dwellings." Any such treatment would violate the housing act. Therefore, the government asked an injunction to prohibit the institute and the other defendants from "promulgating any standard, rule, practice, or procedure which purports to make the appraised value of any dwelling . . . contingent in whole or in part on race, color, religion, sex, or national origin."

The institute at first vigorously opposed the government's suit. Then, to the dismay of at least some of its members, the institute's governing council capitulated. Negotiations went forward early in 1977. Proposed revisions of the offending textbook were reduced to writing and approved by the Justice Department.

The institute now defends the settlement order as lustily as it once opposed the complaint. In the institute's view, the revisions are no more than clarifications, or interpretations, restatements, reaffirmations, or corrections of misunderstandings. The institute



PHOTO: MAGGI CASTELLOE

stoutly insists that members have surrendered no principle in the proposed settlement. The institute contends that the settlement order is not a consent decree at all.

But a consent decree by any other name would have the same aspects. The institute's defensive asseverations evoke Hamlet's opinion of the queen: The lady doth protest too much, methinks. As a condition for extricating itself from the lawsuit, the institute has consented to the entry of a formal order—an order to remain under the court's jurisdiction for three years—that rings with bone-chilling echoes of George Orwell's famous novel, "1984."

It will be recalled that Orwell's protagonist, Winston Smith, worked in the Ministry of Truth. (The Ministry of Truth, of course, was devoted to the promulgation of propaganda.) It was his job to rewrite newspapers, biographies, documents, textbooks—whatever Big Brother required—in order to make them conform to the government's view of truth and propriety. As Mr. Smith rewrote every erroneous or improper passage, he dropped it down the memory hole. The novel, published in 1949, constitutes a classic work upon the nature of a totalitarian state.

Unless I am grossly mistaken—and I suggest that the papers in this case speak eloquently for themselves—this is precisely what is at hand in this settlement order.

The present edition of the textbook asserts: "The principle of conformity holds that maximum value is realized when a reasonable degree of sociological and economic homogeneity is present."

Under the proposed court order, the institute agrees that "it is improper to base a conclusion of opinion of value upon the premise that the racial, ethnic, or

religious homogeneity of the inhabitants of an area or of a property is necessary for maximum value."

The principle of conformity is now to be rewritten. The old principle of conformity has been dropped down the memory hole. The new principle of conformity is to say: "The principle of conformity holds that maximum value is realized when there exists a reasonable degree of architectural homogeneity and where land uses are compatible."

In the present textbook, this statement appears: "In many instances, churches create a demand for property by their members." The sentence is to be stricken under the court order. A reference to "cultural and religious institutions" as factors in demand for real property is to be revised to "cultural institutions."

The authors of the sixth edition had expressed the view that value levels in a residential neighborhood "are influenced more by the social characteristics of its present and prospective occupants than by any other factor." A neighborhood may appear attractive, says the sixth edition, but it will not possess maximum desirability "unless it is occupied by people who are reasonably congenial." Such compatibility "implies a community of interest based upon common social or cultural backgrounds."

That language, under the court order, also would vanish down the memory hole. It would be replaced in the seventh edition by:

"It was once common practice to examine the racial composition of a neighborhood in an effort to detect any signs of nonconformity or change. Such practice is now regarded as misdirected. This evolution in appraisal practice reflects corresponding evolution in social attitudes and public policy. Another example of social change of direct concern to the appraiser is the growing preference for social heterogeneity in some neighborhoods."

Lest these assertions be thought insufficient, the institute agrees, at another point, to insert this new paragraph explaining the principle of conformity:

"The standards of conformity are subject to the principle of change. For example, racial homogeneity was once considered a sign of social conformity and neighborhood stability. Conversely, racial integration was once considered a sign of social nonconformity and neighborhood decline. Social perceptions and attitudes have changed. The notion that racial or ethnic homogeneity is a requirement for maximum value is without empirical support. Many strong and stable neighborhoods are composed of residents of varied and diverse racial, religious, and cultural backgrounds."

Some of the agreed-upon changes in the textbook are minute. For example, a statement that a community's property values are affected by "impending changes in the quantity or composition of its population" is to be recast ever so slightly. The words "quantity or composition" are to be replaced by "size." The present textbook defines the stage of "decline" in a residential community as "a period of diminishing desirability and ultimate disintegration." The new definition will read: "a period of diminishing demand."

Other changes are more extensive and more pointed. Henceforth a student will be taught: "In neighborhood analysis, the appraiser should avoid reliance on the racial, religious, or ethnic characteristics of the residents. Racial and other ethnic factors are not reliable predictors of value trends and use of those factors by the appraiser in neighborhood analysis can be misleading."

The sixth edition has taught that "residential neighborhoods assume many of the characteristics of the individuals who live in them." Such neighborhoods "express the mutual desires of people with comparable interests, related traditions, and similar social and economic status."

Those offending, improper, and unenlightened views will be eliminated from the seventh edition. In their place will appear: "Residential neighborhoods are sometimes composed of a narrow range of income levels and social groupings, but there is a growing preference for heterogeneity within neighborhoods. The criteria for neighborhood analysis are clearly changing, reflecting changes in our social structures and attitudes. Obsolete standards of conformity have no place in modern neighborhood analysis."

In its discussion of values that might improve residential property, the present textbook mentions "prestige and visual appeal." Prestige is now out. Only "visual appeal" is to remain. Among factors that might depreciate value, the present textbook mentions "an influx of people of a different economic, social, or cultural status." The revised edition eliminates that factor and replaces it with "abnormal vacancies, vandalism, and litter."

The agreed-upon textbook revisions are only a part of the consent agreement. The institute is to review all its "booklets, manuals, monographs, guides, lexicons, and other instructional material" to assure that they are consistent with the text provisions. Student tests and examinations must reflect the new positions in correct answers. The institute's instructors and examiners are to be reeducated. Special seminars are to be conducted that will "adequately present and explain" the altered concepts. The institute's code of professional ethics is to be appropriately revised. It will hereafter be improper, hence unethical, for a member appraiser "to base a conclusion upon stereotyped or biased presumptions relating to race, color, religion, sex, or national origin."

To repeat what was said earlier, the institute earnestly denies that the changes are truly changes, or that the new language constitutes any form of intellectual dishonesty. The notion that the government has dictated what can and cannot be said in textbooks and seminars is "totally without merit." The clarifying provisions "were not dictated by the government," but are expressions "of the institute's own ideas."

It is as may be. A member of the institute, F. Gregory Opelka of Chicago, has filed a formal petition of intervention, asking that Judge George N. Leighton refuse to enter the proposed consent decree. The Society of Real Estate Appraisers, a codefendant, has raised strenuous objections. The First Amendment issues are of such striking importance that sooner or later they will be taken by some party to the appellate courts. Meanwhile, in 1977, we have the proposed decree to consider. And for lighter reading, because it is, after all, only fiction, we might return to "1984." □

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The Growing

Government rules coming in early 1978 will mean higher costs to business and ultimately the consumer. And some companies may even have to shut down

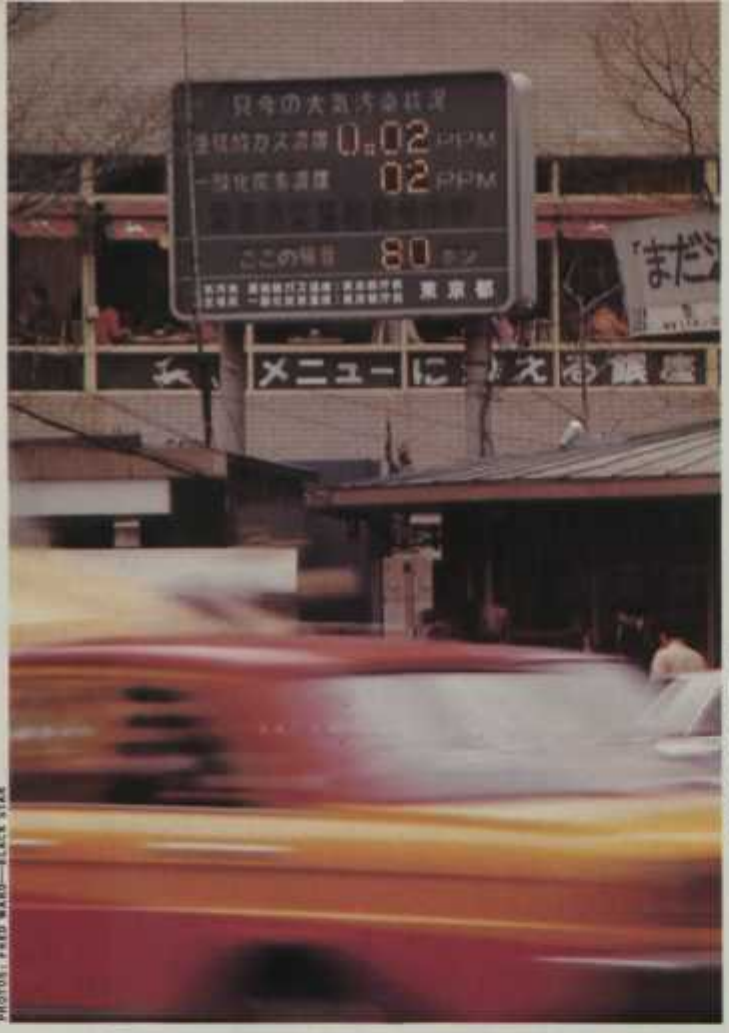


PHOTO: FRED WARD—BLACK STAR

The sounds of man can be loud. In Tokyo (upper left) a huge electronics display tells citizens the precise level of noise at any given moment at a busy intersection. A speeding New York subway train (lower left) creates roughly the noise level now allowed in the U. S. workplace. This limit may be lowered to the level of traffic at a busy corner.



PHOTO: DAN MCCOY—BLACK STAR



Furor Over Noise Regulations

"THE CONGRESS declares that it is the policy of the United States to promote an environment for all Americans free from noise that jeopardizes their health or welfare."

With those words, the Noise Control Act of 1972 became the law of the land.

That law, together with noise regulations already imposed by the Occupational Safety and Health Administration, means Uncle Sam now has rigid control over all noise in the workplace as well as noise produced by an array of manufactured products.

The implications of this may be dire for American business. They will become more evident early in 1978, when OSHA unveils its final master plan for dealing with noise in the American workplace—ranging from the cab of a truck to the drop forge in a steel mill.

Price tag in the billions

Depending on the extent of the government's determination to cut down noise, the cost to industry—and ultimately the consumer—could run from a few billion dollars to many, many billions.

If OSHA comes down hard on the side of extreme stringency in applying noise standards—which it has the authority to do—the result could be the loss of thousands of jobs, the destruction of many small business operations, a curtailment in the output of many products, and a general darkening of the American economic picture.

As every businessman knows, OSHA has made previous forays into the practices of business that have brought loud outcries of bureaucratic oppression. The agency's jurisdiction over noise in the workplace has created a battlefield atmosphere.

The federal government took its first step against noise in 1969 when it used the Walsh-Healey Public Contracts Act to order certain manufacturers doing business with the government not to expose workers to more than 90 decibels of noise during an eight-hour work period. Federal activity in the noise field was broadened in 1971 under the Occupational Safety and Health Act. As a result, virtually all American employees were ordered protected from noise exceeding 90 decibels in the workplace.

AFL-CIO goal

At issue now is whether OSHA will retain the 1971 noise standards or drop them to 85 decibels. It is being urged to do so by the AFL-CIO, the National Institute for Occupational Safety and Health, and the Environmental Protection Agency, which has responsibility for coordinating all federal regulation of noise.

Noise levels set at 90 decibels are equivalent to the sound inside a New York subway station when a fast train zips by. At 85 decibels noise is equivalent to that produced by traffic on a busy street corner.

Reducing acceptable noise levels by five decibels is not as modest a step as it may seem. Most people think this represents a reduction of only a little more than five percent. Actually, the reduction would be 50 percent, since noise is measured logarithmically and not arithmetically.

Mankind has always found some sounds unpleasant. Even legislating against noise is not new. In 44 B. C., because of Roman complaints about street noise, Julius Caesar proclaimed: "Henceforward, no wheeled vehicles whatsoever will be allowed within the precincts of the city from sunrise until the hour before dusk. Those which shall have entered during the night, and are still within the city at dawn, must halt and stand empty until the appointed hour."

In more recent times, however, concern over noise has taken on new dimensions. Medical authorities have found that prolonged exposure to high levels of sound may impair hearing and even result in permanent loss of hearing. Noise, depending on the authorities quoted, can cause high blood pressure, mental agitation, sleeplessness, hardening of the arteries, migraine, gastrointestinal disorders, allergies, and even sexual impotency.

American industry acknowledges that excessive noise is unpleasant, even unhealthy—and, by and large, industry has shown a willingness to make the workplace quieter. In fact, numerous employers put in noise suppression programs long before the federal government got into the field of regulating noise.

However, business and the government, goaded by the AFL-CIO, are at loggerheads over the method by which unwanted noise should be eliminated. The government seems determined to force industry to use engineering controls, rather than personal protective equipment such as earplugs or earmuffs, to meet noise standards at both the 90-decibel and 85-decibel levels. Engineering controls are achieved either by enclosing a machine or redesigning noisy equipment.

$1.2 million per worker

Here is where the factor of cost comes into play.

According to the steel industry, if the government requires engineering controls to bring maximum workplace noise to an 85-decibel level, the cost would be at least $1.2 million for each steelworker affected. On the other hand, the steel industry claims it can provide even better protection at a cost of only $42 per employee—$10 for hearing protectors, $12 for noise-monitoring of the shop or office, and $20 for audiometric testing of workers.

The unions are adamant on the question of hearing protectors. It is the employer's responsibility, they insist, to quiet the machine. Further, the unions complain, ear protectors are uncomfortable and even cause ear diseases. By contrast, the Du Pont Co. testified at an OSHA hearing that 17,000 of its employees have been using protectors for many years without a single medical problem turning up as a result.

Outside the workplace

Controlling noise in the workplace is only part of the picture of trying to achieve the quieter America envisioned by the Noise Control Act



PHOTO: CLAUS C. MEYER—BLACK STAR

A variety of manufactured products—including the omnipresent family automobile—are gradually being drawn under the federal noise control umbrella. For the consumer, this will mean higher prices.

of 1972. There are the sounds outside the workplace generated by planes, trains, buses, bulldozers, garbage trucks, and even lawnmowers. Many manufactured products, not including items used in the home, must conform with noise level standards set by the federal government.

In this case, the Environmental Protection Agency is the policing body. Although it is causing a storm of protest with its insistence that OSHA set maximum noise levels in the workplace at 85 decibels, EPA is creating comparatively tiny swirls of dissent with the way it has set about establishing product noise levels.

This is not to say that EPA has not produced some headaches—and considerable expense—for industry. But EPA seems determined to weigh, wherever feasible, the cost of product noise reduction against the benefits to be derived. So far, when cost effectiveness and cost benefits have not been in balance, EPA has tilted its decisions in favor of waiting until technological improvements make the noise reduction more practical.

Up to Eula Bingham

As for OSHA, the magnitude of the problem it faces in coming up with new workplace noise standards is pinpointed by the numerous delays which have staved off a final decision.

OSHA announced in 1974 that it was considering an 85-decibel maximum. Since then the agency has held three extensive hearings—two in 1975 and one in 1976—in which it has heard from hundreds of witnesses and compiled a record of tens of thousands of pages of testimony. Meanwhile, administrations have changed, and a new OSHA director, Eula Bingham, has come on board. She now is poring over all that material, and she will decide which way the government proceeds. An aide told NATION'S BUSINESS that Dr. Bingham's decision will be announced early next year.

Still unanswered at this stage is what will it all cost. The government and business are no closer to agreement than they were at the beginning. At first, OSHA, using the estimates of an outside consultant, said it would cost business $13.5 billion to cut noise levels to 90 decibels and an additional $18.1 billion to achieve the 85-decibel level—for a total of $31.6 billion.

Industry after industry went before OSHA and vigorously argued that these figures were too low. Later OSHA said the noise reductions could be achieved at less cost, and it cited information from the same consulting firm, Bolt, Beranek, and Newman, Inc., of Cambridge, Mass. The new figures: $10.5 billion for a 90-decibel standard and an additional $8 billion for an 85-decibel standard.

Still later, the consulting firm changed the figures to $11.4 billion for a 90-decibel standard and an extra $8.5 billion to achieve 85 decibels.

The Chamber of Commerce of the United States has joined a long list of companies challenging these figures. The National Chamber says the consulting firm sampled only 68 plants out of a total of 270,558 to arrive at its estimates.

Greatest cost so far

"OSHA's cost estimates, although grossly understated, indicate that the costs involved in meeting the revised noise standard are likely to be of a magnitude greater than any single environmental, health, or safety standard ever proposed by the federal government," the National Chamber said in a statement filed last February.

Bolt, Beranek, and Newman says it would cost the chemical and allied industries about $306 million to comply with the proposed standards. But the Du Pont Co. says its own costs alone would run anywhere from $675 million to $1 billion.

The consulting firm says the cost to the textile industry would be $1.1 billion. The textile industry says the cost would be $3 billion.

GM refutes OSHA

One of the manufacturing installations used in the consulting firm's sampling was a General Motors assembly plant in Framingham, Mass. Bolt, Beranek, and Newman said the plant could comply with a 90-decibel standard for only a total of $25,000 and with an 85-decibel standard for $105,000.

Later the consulting firm admitted to OSHA that these figures were developed by one man after a four-hour walkthrough of the plant and without benefit of proper noise-measuring equipment.

General Motors, after the figures were released, hired an independent noise consultant, Harold R. Mull, Bell & Associates, Inc., which spent ten days at the Framingham plant. Its estimates for compliance were considerably higher—$211,500, instead of $25,000, to reach 90 decibels, and $521,500, rather than $105,000, to bring the noise level down five additional decibels.

Forced shutdowns

The effects that tighter workplace noise regulations would have on business generally are incalculable.

If the 85-decibel standard is applied, and if OSHA insists on engineering modifications instead of pro-



This sign is eloquent in its simplicity and may be a harbinger of things to come.

tective devices worn by workers, some major American industrial companies would have to cut back production or scrap expansion plans. Thousands of jobs would be lost, and thousands more of new jobs would not be created. The effect on small companies would be even more devastating—many would be forced to shut down.

Consider this picture drawn by a representative of small business in testimony before OSHA:

"Small business . . . cannot understand promulgation of noise regulations that jeopardizes the life's work and savings of many small entrepreneurs, throws loyal employees out of work when jobs are difficult to find, increasingly concentrates production and wealth, leads to greater alienation of the public and questioning of the government's judgment if not its motivation, inflates the economy, and draws a short supply of investment capital from productive uses."

In years past Americans could point proudly at smoke pouring out of a factory chimney and say, "That means men at work." The same kind of smoke today means air pollution and trouble for the plant and its workers.

Similarly, the heavy thud of metal being pounded against metal has meant jobs in steel mills. The same noise tomorrow, if it persists, would throw men out of work.

To get noise down to existing standards is costing the steel industry an estimated $476 million. If an 85-decibel level achieved by engineering controls goes into effect, the cost would rise to a staggering $2.4 billion, the industry says. The industry explains that this would come to $1.2 million per worker because only a relative handful of steelworkers are exposed to heavy doses of prolonged noise.

More jobs overseas?

"There is no economic or social rationalization for incurring costs per worker of this magnitude when personal protective equipment achieves a similar or better result," Republic Steel Corp. Vice President John R. Wall, speaking on behalf of the American Iron and Steel Institute, told OSHA.

The steel industry says it will need $47.4 billion for capital expenditures between now and 1985. More than half of that amount— $25.3 billion— will have to be raised through outside financing. Steelmen believe they will have trouble raising that kind of money. They say that $7.6 billion must be sliced off the top to pay for air and water pollution controls, reducing what is available for increasing productive capacity, and that addition of heavy costs to cut noise would substantially enlarge their problem.

"The result of this would most likely be an increase in imports of steel and the export of American steelworker jobs," Mr. Wall told OSHA.

"If profitability and capital availability do not improve, the economic consequences are obvious: scarcities of many steel products, fewer new jobs created, fewer existing jobs maintained, and—ultimately—slower economic growth."

Companies can win

Fortunately, there are avenues of appeal if a firm is cited by OSHA for violating noise regulations. Congress created a special review commission to hear such appeals. Two recent cases show that companies sometimes can win.

OSHA cited Castle & Cooke Foods, a Hawaii canning company, for exposing its 200 workers to excessive noise despite the fact that the cannery required the employees to wear protective equipment. OSHA claimed the company should have installed engineering controls even though this would have cost $700,000 initially and $240,000 a year thereafter for maintenance. The review commission found these costs would have been excessive.

In another case, OSHA moved against the Great Falls, Mont., "Tribune" because the newspaper's pressmen were being subjected to 100 decibels for about 3½ hours each shift while the presses were running. The newspaper, OSHA said, should have built a "quiet booth"—costing about $100,000—from which the pressmen could operate the presses at a distance. However, a pressman's job is a mobile one, and he has to hover over the presses while they are running. The review commission felt that earmuffs worn by the pressmen were adequate.

Unions are stubborn

Organized labor shows no sign of letting up on its assertion that the worker should not have to protect himself. As Dr. Larry Royster, a North Carolina State University hearing consultant hired by the Teamsters, put it during OSHA hearings:

"If the law would simply require that top management, including the lawyers, wear earplugs for one complete day per week until such time that the employees are no longer required to wear them, I believe we would be amazed at how fast the noise problem would disappear."

Grover C. Wrenn, deputy director of OSHA, told NATION'S BUSINESS he has seen scant evidence that industry has gone all out in offering ear protectors to its workers. Moreover, he says he doubts that using ear protectors is the solution.

"It is an approach that is not likely to succeed, given the behavioral factors involved, both on the part of employees who must wear the ear protectors and the employers who must be diligent in enforcing their use," Mr. Wrenn says.

"Experience has shown that this kind of discipline and commitment has not characterized more than a mere handful of hearing conservation programs in industry even though noise has been recognized as a major occupational hazard for 40 or 50 years."

There are instances, however, where some union workers might save their jobs by wearing ear protectors. A General Motors official told an editor of NATION'S BUSINESS what a lot of businessmen are thinking:

"You have some machinery where you can achieve the proper noise levels by resorting to a little bit of inexpensive automation. It might take, for example, about $20,000 to automate, but in the process you would eliminate six jobs. Now management might not consider $20,000 an excessive expenditure, but the unions would see this as a harsh blow."

The consumer pays

For the American consumer this war on noise means one thing for certain—a higher price tag on almost everything he buys. The consumer ultimately will help pay the price of making the workplace quieter, and he will immediately help foot the bill for lowering the noise output of manufactured products.

Action to achieve quieter manufactured products is moving more smoothly than what may be the case when OSHA issues its final standards.

For example, EPA has been prescribing noise limitations on a product-by-product basis—portable air compressors, trucks, bulldozers, and similar items—since June, 1974, with minimum protests from industry.

OSHA rebuff to EPA?

There is every sign, however, that OSHA, rejecting an EPA recommendation, wants to crack down on workplace noise in one fell swoop, instead of industry by industry. Some industries do not have the technology to lower noise levels as quickly as others. An unrealistic federal deadline would penalize them tremendously.

By EPA's appraisal, the expense of lowering noise output on manufactured products has not been prohibitive so far. EPA has granted extensions in a number of cases to give manufacturers more time to make adjustments. And the agency has said it would scrap noise controls on any products where a case can be made that the conversion costs are prohibitive.

W. E. Schwieder, executive engineer for noise abatement at Ford Motor Co., told NATION'S BUSINESS that the cost of reducing noise on medium and heavy Ford trucks to 83 decibels by Jan. 1, as required by EPA, will add from $160 to $900 to the price per vehicle. To meet an 80-decibel standard set to go in effect Jan. 1, 1982, will hit the buyer for an extra $700 to $2,500. So far, the cost of making Ford passenger cars quieter is only running about $65 per car, Mr. Schwieder says.

EPA boasts that its performance shows it is concerned about costs.

"I believe industry has accepted the fact that we are not hell-bent-for-leather to get the noise down at any price," Henry E. Thomas, director of standards and regulation in EPA's Office of Noise Abatement and Control, says.

In every instance, he says, EPA matches the cost of noise reduction against the eventual benefits of that reduction—whether it be with motorcycles or locomotives.

"This is not a case of blindly issuing regulations," he insists. "If consumers or industry believe costs are beginning to approach an unreasonable level, then they can go back to Congress or EPA and argue that the costs may not be worth the benefits that are coming from these regulations."

Mr. Thomas concedes that, in some areas, it will be almost impossible, except at prohibitive expense, to significantly reduce noise levels. He explains:

"The only option may be to reduce the exposure of the worker so that he will only work six or four hours, instead of eight, on a given job. But this presents a productivity problem. It may mean adding a second shift and even a third shift. Considering union rules that exist in many industries, you would have to hire two, three, or even four people to perform the job of one."

Inflation impact

In cases where the cost of reducing noise on products is likely to run into big money and consequently add to inflation, the Council on Wage and Price Stability requires EPA to submit inflation impact statements. Until now EPA has had to file such statements only on about half of the dozen products on which it has applied noise limitations.

"The average pass-through price increase has been in the neighborhood of three to four percent," Mr. Thomas says. "I know this is not an

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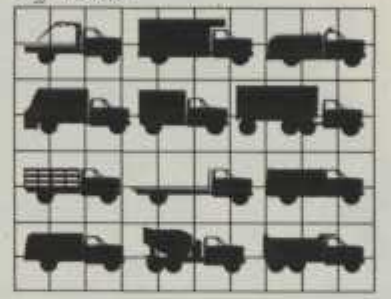
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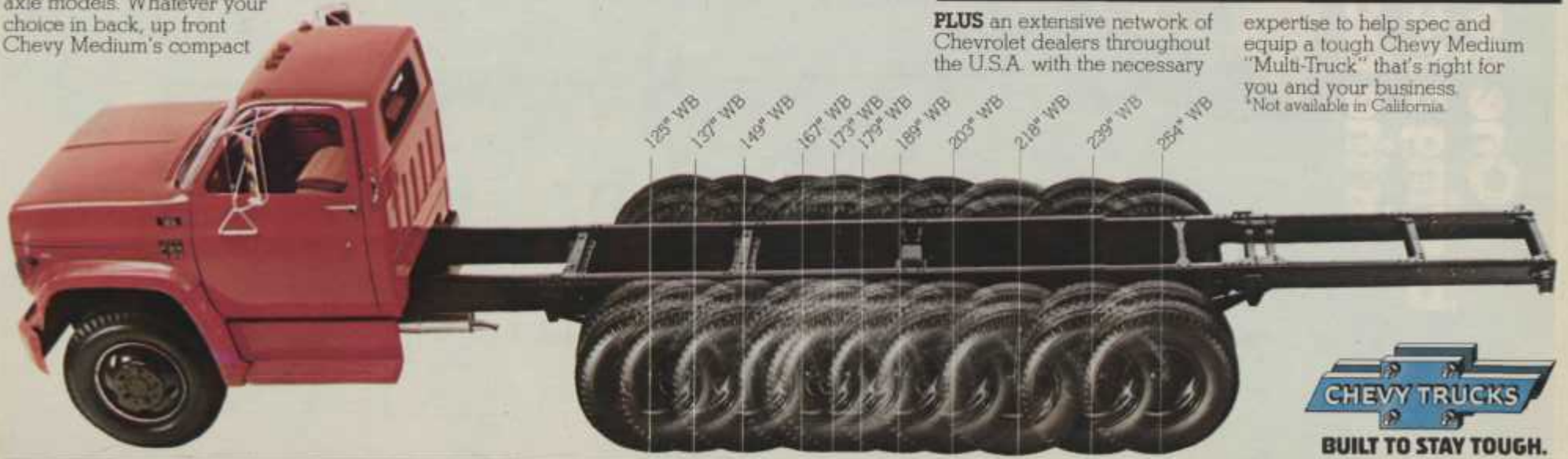
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insignificant figure when you do an economic assessment on a national basis. The dollars get into the hundreds of millions fairly quickly. But the burden on any one industry or any one consumer has not been such that they are having to holler 'ouch.' "

One standard for all

From the standpoint of industry, one of the best features of the Noise Control Act as it applies to products is that Congress put in specific language making it impossible for states to enforce state noise standards more rigid than those of the federal government.

"Once EPA issues a regulation, the manufacturer need worry no more about conflicting state or local regulations," Mr. Thomas explains. "Congress has thus avoided what happened with the Clean Air Act, where California was permitted to have standards different from the other 49 states."

For example, Washington, Oregon, Maryland, Florida, and several other states have set noise levels on motorcycles more stringent than those now proposed by EPA. When the EPA standards are activated, motorcycle makers can ignore these state standards and abide only by the federal standards.

This will mean many manufacturers will be spared problems similar to those the Clean Air Act created for Detroit, which has to turn out a different kind of car for the California market.

How quiet is enough?

A case in point occurred when EPA began drafting noise regulations for medium and heavy trucks. California and several other states had indicated they would lower permissible noise levels on such trucks to 75 decibels and then to 70 decibels in the early 1980's. That is well below the federal limits set or foreseen by EPA. Mr. Thomas says:

"I don't know, and nobody on my staff knows, how you build a 70-decibel truck. There are no technological studies to fall back on, and without the technological information you need, you can't apply cost."

When New York City passed an ordinance dealing with noisy garbage trucks, no manufacturer could fulfill the city's requirements.

"Eventually, a truck manufacturer came up with a special design, but when he told New York City what it would cost they backed off," Mr. Thomas says. "The city decided it wasn't ready to pay that kind of high price for the quiet it would get from the new trucks. And about this time the money crunch hit New York City; the antinoise ordinance was pushed aside. Today this situation would not arise because EPA has now set federal standards on garbage truck noise. Manufacturers would be able to ignore standards set locally or by the state."

The campaign against industrial noise is as vigorous in some foreign countries as it is here. In some, because of population density, there is even greater worry about noise. The Japanese are especially concerned with the problem.

Less noise, more danger

In France, bulldozers must be much quieter than in the United States. This has posed a safety problem.

"The extra equipment to make French bulldozers quieter has added weight and made them dangerous to handle," Mr. Thomas says. "Some Frenchmen have overcome that by taking the noise suppression equipment off the machines."

Aside from the fact that sound at certain levels and durations is harmful to the human ear, people differ in their reaction to noise. A farmer in the Middle West and a stockbroker in New York City are accustomed to different types and intensities of noise.

R. Murray Schafer, a well-known Canadian composer and author, has just written a book titled "The Tuning of the World," in which he explores the whole field of noise. He surveyed numerous cities around the world to determine which noises people complain about most.

In Johannesburg, South Africa, animal and bird noises topped the list by a wide margin. In Chicago it was air conditioners. Drum beaters and charcoal stove makers were most annoying to the citizens of Mombasa, Kenya. Family reunions in Rabat, Morocco, brought in a flood of complaints.

The noise complaints in two cities would have to be considered unique. In Essen, Germany, it was the pounding of veal in restaurants to make schnitzels. And Mah-Jongg parties kept city officials hopping in Hong Kong. □

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THE OUTLOOK NOW

How Businessmen See the Months Ahead

Earl D. Hilburn, president of the Western Union Telegraph Co., Upper Saddle River, N. J., rates the economy's prospects next year as "probably down a little, but still good." He believes prospects for the economy during the remainder of this year are "strong."



Improvement in the economy—that's the predominant view shown in a Nation's Business survey. Here is a report

"GOOD, BUT not great. Confused activity in Washington not helping. Export-import deficit a growing problem."

In this staccato fashion, George D. Ray, Jr., president of Southern Mills, Inc., Atlanta, gives his opinion of the economy during the remainder of 1977.

A different opinion comes from J. L. Swanson, president of Nebraska Machinery Co., North Platte, Nebr., although in the same brief and to-the-point style: "Poor. No leadership. Inflation. No productivity out of labor. Poor balance of payments."

Optimism prevails

These conflicting estimates of the economy's performance during the remainder of the year were made for the latest NATION'S BUSINESS Outlook Survey of business leaders throughout the country.

Mr. Ray's view is in the majority. Fifty-eight-percent of the respondents look for an improved economy, 18 percent look for a slowing down, and 24 percent expect the economy to move along at about the same rate it maintained during the summer.

John C. Emery, Jr., president of Emery Air Freight, Wilton, Conn., says the economy will be "good" for the rest of the year "if we don't let the miserable stock market get us down and cloud our future."

Clyde D. Hartz, corporate economist of Schlage Lock Co., San Francisco: "Prospects look good. Residential construction will be good for another year, and nonresidential construction is going into a three-year up-cycle. This is good for our business. No boom. Just good, steady movement—which is what we need."

C. M. Berry, president of Seattle-First National Bank, Seattle: "Very good. Growth rate lower than the first half, but inflation also lower. Consumer strength tapering off some, but added impetus from business expenditures for plant and equipment."

James D. McClary, chairman of Morrison-Knudsen Co., Inc., Boise: "A very gradual, slow, improvement. The lack of administration decisiveness is hampering an economy that wants to improve."

Other insights into future

In addition to asking for forecasts about the economy through the end of this year, NATION'S BUSINESS asked this series of questions:

"How do you rate prospects for the economy in 1978?"

Forty-six percent of those answering this question say the economy will improve, 35 percent say it will



Dudley A. Ward, vice chairman of The Budd Co., Troy, Mich., looks for the 1978 economy to be "a bit slower than 1977, but with real GNP growth of 4.5 to five percent." How will the rest of this year be? "Good," he says. "A little less good than the first half, but still good."

Robert P. Reuss, chairman and president of Central Telephone & Utilities, Chicago, is worried about "continuing high government deficit spending and too much political tinkering with the economy." He is encouraged by the degree of "control of the inflation rate."





William F. Porter, president of Globe Refractories, Inc., Newell, W. Va., looks for "about the same or a slightly lower" rate of inflation next year compared with this year's rate. He bases this forecast on expectations of slower growth and "fairly high unemployment."



Warren Berl, chairman of Sutro & Co., Inc., San Francisco, says the economy should be "fair" in 1978. He predicts real growth in the gross national product will slow down to below five percent. Prospects for the remainder of 1977 are "good," Mr. Berl says.

hold about the same as in the summer of 1977, and 19 percent say the economy will taper off.

"What has been the trend of your own sales, orders, and profits this year?"

Seventy-two percent say the trend has been up, 17 percent say it has been down, and 11 percent say it has held steady.

"Compare your inventory-to-sales ratio with that of a year ago."

Thirty-nine percent say the ratio is up, 22 percent say it is down, and 39 percent say the ratio is holding steady.

"What is happening at your company as regards pay, productivity, and number of workers?"

Regarding pay, 86 percent say their payroll is increasing, nine percent say it is holding steady, and five percent say it is decreasing.

Regarding productivity, 50 percent say it is increasing, 36 percent say it is holding steady, and 14 percent say it is decreasing.

Regarding the number of employees, 40 percent say it is higher, 35 percent say it is about the same, and 25 percent say it is lower.

"What is the outlook at your company for capital investments next year? In plant? In equipment?"

Regarding investment in plant, 43 percent say it will increase, 36 percent say it will be about the same as in 1977, and 21 percent say it will decrease.

Regarding investment in equipment, 50 percent say it will increase,

29 percent say it will be about the same as in 1977, and 21 percent say it will decrease.

"What is the administration doing in the economic field that helps or hurts your business?"

There is a variety of answers, most of which find fault with the administration.

Among them: Too much bureaucracy, too much government regulation, and too many tax changes; inactivity in business matters; unrest and confusion within the administration; punitive environmental rules; potential increases in company costs resulting from the energy bill; inadequate steps against inflation; the likelihood of a further raise of the minimum wage; cancellation of the B-1 bomber program; and threats of divestiture in the oil industry.

On the brighter side, the general availability of mortgage money and the administration's pledge to balance the budget are cited.

"Will the inflation rate be rising or falling next year?"

Seventy-four percent say it will be rising, six percent say it will be falling, and 20 percent say it will hold steady.

"What do you consider the most encouraging aspects of the economy?"

Answers include: Increased employment, growth in the economy, consumer confidence, increased capital spending, auto sales levels, the fiscal conservatism of President Carter, increased oil exploration, and the level of farm production.

"What do you consider the most discouraging aspect of the economy?"

Answers include: The threat of rising inflation, a tendency to destroy incentive to invest, energy imports and costs, lack of an overall energy plan, the balance-of-trade deficit, wasteful government spending, too much government, the what's-in-it-for-me attitude of too many people, the power of labor, the shaky finances of the Social Security system, and softness in demand for steel and other metals.

M. G. Mitchell, chairman and president of Chicago Bridge & Iron Co., Oak Brook, Ill., is encouraged about the economy because he sees "some tendency towards conservative attitudes" in the country. Government attitudes on energy and capital formation worry him.



James Williams, president of Harbor House, Inc., Clawson, Mich., says his firm's gross has held steady this year, but recent minimum wage increases have hurt profits. He fears union clout is growing in Washington, and he hopes the administration will keep its promise to balance the federal budget.



Import curbs feared

Francis N. Southworth, chairman of Concord National Bank, Concord, N. H., says: "In 1978 our current period of resurgence will be more than two years old. Although I do not foresee any drop in economic activity, I feel any growth will be restrained. Energy costs will increasingly affect the business climate, and uncertainty relating to possible changes in federal income tax law will have a depressing effect until Congress has formally acted. Also, our present unfavorable trade balance may also result in import restrictions which may lead other nations to take retaliatory measures."

Daniel Laesch, president of Laesch Dairy Co., Bloomington, Ill., says: "For the past five years I have been pessimistic about our economy. I am changing my opinion. The economy seems to be hanging in there each year, although inflation continues to rise."

D. M. Yost, president of Sorg Paper Co., Middletown, Ohio, worries about foreign policy, high fuel costs, tax legislation, government regulation, and trade relations. "They are all unknowns at this time, and they could have major effects" on the economy, he says.

Robert F. Bogan, president of American Trailers, Inc., Oklahoma City, says: "We expect the economy to continue on an upward trend in 1978, but probably not at quite the rapid rate experienced in 1977. We believe that continued deficit spending by the federal government may help to sustain the economy in 1978, but at the expense of increasing inflation."

A. D. Schmidt, president of Northwestern Public Service Co., Huron, S. Dak., looks for a poorer performance by the economy next year due to inflation, higher interest rates, and "a heavier hand of the federal government in all too many areas."

Werner C. Brown, president of Hercules, Inc., Wilmington, Del., predicts: "The economy will continue to expand during 1978, but at a more moderate rate than this year. Real GNP growth is expected to be in the 4½ to five percent range. Inflation, measured by the change in consumer prices, should be below six percent."

John H. Perkins, president of Continental Bank, Chicago, says that, "given the limited excesses which have developed, we see continued growth in the five percent range in 1978."

Boom late next year?

Another banker, Frank K. Spinner, senior vice president of the First National Bank, St. Louis, looks for continued expansion in the four to 4½ percent real-growth range and the "possibility of a boom late in 1978."

Thomas J. McMacken, president

of Ohio Plate Glass Co., Toledo, is less optimistic. Mr. McMacken writes that 1978 prospects are "not as good as in 1977. Prices are rising much too fast, and productivity is not rising."

No margin on sales

Alan C. Root, senior vice president of American Standard, Inc., New York, sees inflation going up because "productive enterprises presently are earning virtually no physical margin on sales after allowance for replacement depreciation." He adds that "taxation is based on paper money margins."

Maurice Farber, chief executive officer of Farber Brothers, Inc., Memphis, looks for slightly higher inflation next year due to an increase in the minimum wage and "unreasonable" demands of unions for pay increases.

G. F. N. Smith, president of American Mutual Life Insurance Co., Des Moines, looks for little change, if any, in the inflation picture. He points out that commodity prices are under pressure, although wages, salaries, and the cost of services are continuing to rise.

Big government

Paul Batcheller, chairman of ZIP Feed Mills, Inc., Sioux Falls, S. Dak., says: "The most discouraging aspect of the economy is big government, with its welfare programs and its figuring out of new ways of raising taxes."

Edwin E. Smith, president and chairman of The H. B. Smith Co., Inc., Westfield, Mass., worries about the "continued rush toward complete socialism."

Cody Fowler, chairman of Freedom Federal Savings & Loan Association, Tampa, is discouraged by "government spending policies that make welfare too encouraging." Unfortunately, he says, there is "no real conservatism in government spending." He also cites a "lack of public confidence in government."

And Ira G. Corn, Jr., chief executive officer of Michigan General Corp., Dallas, complains about "the instability in Washington, the wide variety of laws under consideration, the constant change of recent laws, the unwillingness to compromise so that there is less change each year, and the inability of Congress in a period of great prosperity to reduce the budget deficit." □



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During a pause in International Labor Organization deliberations in Geneva's Palace of Nations, U. S. employer delegate Charles H. Smith, Jr., swivels around to confer with employer delegates and advisers from Italy and Great Britain.



Statues of workers, such as this miner, rim the modernistic ILO headquarters building in Geneva, where the permanent staff carries on the agency's day-to-day operations. In all, ILO has 3,000 employees from 100 nationalities located at its headquarters and at 40 offices around the world.



Much of the productive activity takes place in special committees, such as this one on resolutions. In recent years the formation of voting blocs and the blatant politicalization of the ILO have hamstrung the efforts of these committees.

Why the U. S. Plans to Quit the UN's Labor Arm

The International Labor Organization is supposed to take an objective look at work practices. More and more, though, it has been playing international politics, and U. S. representatives are fed up

THE UNITED STATES, increasingly unhappy with world organizations that become partisan political forums, is scheduled to say goodbye to one of them next month—the International Labor Organization.

"High time," is the sentiment of business and labor organizations which select delegates to serve along with U. S. government representatives at conference sessions in Geneva, Switzerland.

Both the Chamber of Commerce of the United States, which appoints a delegate representing employers, and the AFL-CIO, which appoints the labor representative, want the U. S. to pull out.

Tripartite organization

Officially, the U. S. will withdraw on Nov. 5, but the ILO has had two years' notice that the U. S. intends to leave unless the group quits playing world politics and returns to the concerns which caused the ILO's formation.

The ILO came into being in 1919 as a tripartite organization of business, labor, and government to set standards for workers in such areas as hours of work, discrimination, and pensions. Delegations from each nation include two representatives from government and one each from employers and workers. In theory, the worker and employer delegates are independent of their governments and vote their own views.

A political turn

When the U. S. joined in 1934, most independent nations had some type of economic structure in which there were distinct worker and employer communities. The spread of communism and other forms of totalitarianism has since blurred that distinction in much of the world.

Made part of the United Nations at that body's creation, the ILO continued to operate serenely until 1954 when communist bloc countries joined it. Since then, and with the explosive increase of Third World countries, the ILO has become an organization in which most delegations are controlled by their respective governments. It has become motivated by world politics and acts accordingly.

U. S. unhappiness at this trend climaxed two years ago when then-Secretary of State Henry Kissinger filed the two-year notice required for withdrawal, citing as reasons:

- The erosion of tripartite representation.
- The selectivity with which the ILO expresses concern for human rights.
- The lack of due process in ILO proceedings.
- The organization's increasing politicalization.

Governmental dictates

The U. S. letter spelled out in detail the inequities. In the case of tripartitism, communist nations' government, worker, and employer delegates all automatically took the same line, and more and more other nations' labor and employer delegates also were following the dictates of their governments.

The U. S. also expressed chagrin over an ILO tendency to censure and harangue Free World nations on human rights violations—real and imaginary—while never acknowledging human rights violations by communist and Third World nations. One point particularly offensive to U. S. unions and employers is a disregard for ILO rules that require an investigation by a group of legal experts before a nation is condemned publicly.

Dr. Kissinger's withdrawal letter also said: "The United States recognizes that revising the practices and arrangements of the ILO is not going to restore the world of 1919 or of 1944. It would be intolerable for us to demand that it do so. On the other hand, it is equally intolerable for other states to insist that, as a condition of participating in the ILO, we should give up our liberties simply because they have another political system.

"We will not."

At the 1976 ILO conference, there was no significant progress toward solving the problems cited by the U. S. At this year's meeting, in June, the progress again was unsatisfactory. An angry and unhappy U. S. delegation returned home to plan the withdrawal.

ILO mirrors UN problems

"As one who firmly believes in the overall usefulness of a system of international cooperation," says Charles H. Smith, Jr., chairman of SIFCO Industries, Inc., and the U. S. employer delegate to the ILO, "I emphatically believe these fundamental problems must be properly addressed and corrected before they destroy the United Nations even as its predecessor, the League of Nations, was destroyed."

Membership in the ILO mirrors the United Nations and the upheavals which have torn that body in recent years. Gradually, over a number of years, scores of newly independent nations have joined the UN and its specialized agencies. Today the ILO's membership roster includes 135 countries.

The continent of Africa alone has 49 separate states in the ILO. They have a voting strength nearly equal to the total voting strength of the ILO 25 years ago. Almost a decade

ago these new nations began to organize their voting. Others around the world joined them, and the coalition took the name of the Group of 77. Today that group claims a membership of 114.

Arab-Israeli conflict

Originally, the cohesiveness in voting among these nations was limited to government delegates, but in recent years, employer and worker delegates have joined with the government delegates. ILO observers are convinced that this has come about through coercion in many instances.



ILO Director-General Francis Blanchard made a trip to Washington to urge the U. S. to remain in the UN agency.

Another emerging force within the Group of 77/114 is the Arab group. This group magnifies its strength by using the Arab states in North Africa to mobilize the entire African region. In all, there are at least 17 states in the ILO Arab bloc and a number of other Moslem countries that frequently favor the Arab position. It was this coalition that steamrolled a resolution in 1974 condemning Israel for alleged discrimination against Palestinian workers in Israeli-occupied territory. The coalition, which continues to use the ILO as a forum for its views on the Middle East impasse, then allowed the Palestine Liberation Organization to have observer status and a PLO representative to mount the speaker's platform the next year. In protest, the U. S. delegation walked out of that meeting.

Blunt assessment

Before leaving the last conference they are scheduled to attend this year, the U. S. delegates gave the assembly a blunt assessment of the ILO.

Mr. Smith, a former chairman of the Chamber of Commerce of the United States, said: "If ever there was a clear indication of the need to eliminate political consideration from the work of the organization, this 1977 session of the conference is an example."

Daniel L. Horowitz, a Labor Department official who is chairman of the U. S. government delegation, observed: "Can there be any question in anyone's mind that the continued lack of criteria to ensure that there could be no condemnation without due process has been one of the most disruptive elements causing so many difficulties in this conference . . . and conferences of past years?"

The U. S. worker delegate, Irving Brown, of the AFL-CIO, lashed out at the member nations for the double standard on human rights. "Unless there is implementation in each country, in each nation, it all remains on paper," he said. "From my point of view the ILO has been badly weakened and its basic machinery badly damaged, perhaps damaged beyond repair. I hope not."

Secretary of Labor Ray Marshall, who this year attended his first ILO meeting, heads a cabinet-level government committee that plans to meet soon to make a final decision on withdrawing. He came away from Geneva firmly convinced that not enough progress had been made within the ILO to induce the U. S. to withdraw the Kissinger letter.

"The purposes of the ILO are very



At the annual ILO conference, 540 delegates meet in the main hall of the Palace of Nations in Geneva. The building was the home of the defunct League of Nations. Many observers fear that the ILO, now in the grip of Soviet, Arab, and developing-nation voting blocs, will go the way of the League.

good," he told NATION'S BUSINESS, "but the ILO hasn't been able to carry out those purposes as effectively as it should because of the violations of due process and the allowing of political matters to get mixed in with technical assistance and economic considerations."

Standing equally firm for withdrawal from the ILO are the National Chamber and the AFL-CIO.

There is no dissension among major business groups about the desirability of withdrawal. But not so in labor ranks. The United Auto Workers argues that the U. S. should remain in the ILO. And surprisingly, the International Association of Machinists and Aerospace Workers, a member of the AFL-CIO, has urged President Carter not to withdraw.

A group of about 30 congressmen, including influential Sen. Hubert H. Humphrey (D.-Minn.), also want the U. S. to remain in the ILO.

Loss of credibility

A preponderance of people in Congress, business, and organized labor, however, feel that to recall the Kissinger letter in the absence of positive steps by the ILO would seriously damage U. S. credibility. Advocates of staying in the ILO, even in the absence of any changes, contend that a U. S. departure would hurt this country in the foreign relations area.

"If we do have to withdraw," Secretary Marshall told NATION'S BUSINESS, "I don't think it would necessarily have a serious impact on our international relations. I think it would strengthen them. We would have a credibility problem if we stay, because we just have not seen enough changes take place."

As the November withdrawal date nears, other Free World nations have stepped up their efforts to get the U. S. to change its stand.

Approaches from envoys

Mr. Smith reports many approaches from ambassadors of major industrial nations. The ambassadors urge that the U. S. remain in the ILO, saying that they agree on the problems requiring solution and will work with the U. S. to overcome them.

"Under present circumstances, I don't advocate staying," says Mr. Smith. "I think we can be of more help by our absence. Over the past few years we made every effort we could think of. All of us worked very hard, but we were unsuccessful."

He says the ILO must come to grips with reality in regard to representation, contending that tripartitism and universality really don't go together.

"If you accept universality, then every country ought to be represented," he explains. "If you accept the principle of tripartitism, then really you should have as members only those nations with the capability of having true tripartite representation."

Mr. Smith believes the ILO could go a long way toward correcting its shortcomings if it adopted a weighted voting formula which considers such fundamentals as members' gross national product, geographic size, population, and contribution to the ILO budget.

"Goodwill, common sense and logic, even diplomatic skills, are of little avail as long as power is available without responsibility," he says.

Increased politicalization

During the past dozen years there has been a steady increase in political activity in the ILO, particularly at the organization's annual confer-

THE ILO IN BRIEF

What it is: Created in 1919 by the Treaty of Versailles, the International Labor Organization was a separate organization from the League of Nations. It was established to provide an international forum for world labor-management problems and to set international labor standards. The United States joined in 1934. The ILO became a specialized agency of the United Nations in 1946. Today there are 135 nation members.

How it works: Each member country has the right to send four delegates to the annual conference, which is held in Geneva in the old League of Nations building. Each member is authorized two government delegates and one each from a worker group and an employer group. The AFL-CIO provides the U. S. worker delegate and the Chamber of Commerce of the United States the employer delegate. Each delegate may speak and vote independently.

Between conferences, the work of the ILO is guided by the Governing Body, comprised of 28 government members and 14 worker and 14 employer members. The ILO's permanent staff comprises the Geneva-headquartered International Labor Office.

U. S. involvement: As elsewhere in the United Nations, the U. S. pays the largest share of the international organization's budget. Currently the U. S. share is 25 percent. The U. S .S. R. and its two republics of Ukraine and Byelorussia are next, with a total of 14.27 percent of the $160 million, two-year budget.

The issues: With the admission of the U. S. S. R. and other communist states to the ILO in 1954, followed by a deluge of new developing nations from Africa in the 1960's and a coalition of Arab nations, the ILO has become a political forum.

U. S. unhappiness has been mounting over the years and on Nov. 5, 1975, the U. S. notified the organization that if ILO activities in four critical areas were not improved this country would leave the ILO at the end of the required two-year notification period.

The four major complaints of the U. S. are the erosion of tripartite representation, the selectivity with which the ILO expresses concern for human rights, the lack of due process in ILO proceedings, and the increasing politicalization of the ILO.

The outlook: Both the National Chamber and the AFL-CIO want the U. S. to withdraw from the ILO because no efforts have been made to change the way the ILO operates. Unless something dramatic and unexpected takes place, the U. S. will not withdraw the letter of intent to leave the ILO, and on Nov. 5 this nation will no longer be a member, marking the first time the U. S. has pulled out of a United Nations organization.

THE BUSINESS DELEGATE TO THE ILO

Conflict over U. S. representation in the International Labor Organization is not new to Charles H. Smith, Jr., chairman of SIFCO Industries, Inc., of Cleveland.

The affable Mr. Smith attended his first ILO conference in Geneva in 1953 as an adviser to William G. McGrath, a Cincinnati businessman. Mr. McGrath was the employer delegate selected jointly by the Chamber of Commerce of the United States and the National Association of Manufacturers.

That was to be the last year of relative tranquility in the ILO because the next year the U. S. S. R.; two of its republics, the Ukraine and Byelorussia; and other communist states were admitted. Admission to the United Nations was the ticket to the ILO—only a simple letter of notification to the ILO's director general was required.

So the communists came to the conference in 1954, and Mr. McGrath returned home with a recommendation to the President that the U. S. withdraw from the organization.

Both the National Chamber's and NAM's boards of directors eventually passed tough resolutions saying that, unless there were some changes in allocating representation in the ILO, they would not name the employer delegate after the 1956 conference.

Much to Mr. Smith's surprise, the two groups asked the young Cleveland businessman to be the employer delegate to that 1956 conference, but with a mandate: He had to come back with some good indications of change.

"I returned home from that meeting and reported to both boards of directors that there was no improvement," he recalls. "I added that I thought it would be a mistake for the U. S. to withdraw and that we should continue to participate."

At this point in history only the employers were unhappy, Mr. Smith recalls. In the early days of Soviet bloc participation, the communist countries regularly voted on the side of worker delegates, which was not unwelcome by U. S. and other worker delegates.

"The U. S. government wasn't about to get out as long as labor wanted to remain in the ILO," Mr. Smith says.

Today, due to the politicalization of the ILO, most of U. S. organized labor has had a change of heart. Accelerating this change has been the switch in voting habits of the Soviets and the new power blocs.

During the past 23 years Mr. Smith has attended 15 ILO sessions as a delegate or adviser. For the past four years he has been not only the U. S. employer delegate, but also a member of the ILO's Governing Body.

"The National Chamber has maintained the policy, which I fully support, that, if the U. S. is to be a member of the ILO, the chamber—as the largest business organization—has the responsibility to work within the ILO and properly represent the views of business," Mr. Smith says.

"As early as 1956 I told both boards we shouldn't walk away from a fight. I said: 'If you can get the government of the U. S. to withdraw, I am all for it, but as long as the government intends to participate and says to us it is important to our foreign policy, then I think we should stay in.' And so we have."

ence, which is held in the Palace of Nations in Geneva, once the home of the League of Nations. Considerably more than half of the total time at the conference is now taken up in the handling and debating of political issues; less and less time is spent on the ILO's normal work.

The U. S. withdrawal letter criticized this trend and commented that the handling of political issues was beyond the competence and mandate of the organization.

"In sum," Dr. Kissinger stated, "the ILO, which this nation so strongly supported, appears to be turning away from its basic aims and objectives and is increasingly used for purposes which serve the interests of neither the workers for which the organization was established nor the nations which are committed to free trade unions and an open political process."

Following the June, 1977, meeting of the ILO, Mr. Smith flew back to Washington to present a report to the Board of Directors of the National Chamber. He recommended withdrawal, and the board agreed, but an official announcement was withheld pending a decision by the President and the cabinet-level committee on the government's own policy.

Dead-end avenue

The AFL-CIO came to the same conclusion about withdrawal, but the labor federation's Executive Council also refrained from a public announcement. The labor and employer positions, however, became public knowledge after a meeting of the cabinet-level committee in July.

Sentiment on the committee was weighted toward withdrawal. In August, however, words of caution came from the State Department, represented on the group by Secretary of State Cyrus R. Vance, and from Zbigniew K. Brzezinski, assistant to the President for national security affairs. Both, according to reliable sources, argued that a decision was not required and could be postponed in the hope that meaningful concessions to U. S. demands would be offered. But knowledgeable observers do not envision this happening. While they understand the desire of diplomats to keep any avenue open, they pragmatically view this particular avenue as a dead end.

A U. S. withdrawal, of course, would not have to be permanent. If the ILO ever solved the problems cited in the Kissinger letter, the U. S. would have strong motivation for a return to the organization.

Tougher time

Clearly, the solid front of the two groups supplying employer and worker delegates presents a problem for

government. If President Carter decided to keep the U. S. in the ILO despite refusal of the National Chamber and the AFL-CIO to participate, he would run counter to the demand in the Kissinger letter to reinstate the principle of tripartitism.

The President could name another labor group, such as the United Auto Workers, to provide the worker delegate, but this would not represent the bulk of organized American labor.

He would have an even tougher time finding a replacement for the National Chamber. For a number of years the National Association of Manufacturers and the National Chamber jointly selected the employer delegate, but the NAM pulled out of the ILO program more than a decade ago because of the ILO's changing representation. The NAM has not had a change of heart since then.

Outlook in Congress

Nor is the President likely to find a great deal of support from Congress. With both business and the AFL-CIO leadership firm in their demand that the U. S. withdraw, it isn't likely that Congress would back the President if he decided the U. S. should stay.

A request for an appropriation to pay the U. S. fiscal 1978-79 contribution to the ILO has not been submitted by the State Department. If a request for a supplemental appropriation is submitted at the behest of the President, funds probably would not be approved by Congress.

Secretary Marshall advocates taking the resources and the energy spent on the ILO to achieve some of the ILO's purposes through other means.

"We contribute $20 million a year to the ILO," he told NATION'S BUSINESS, "and I think we can do a lot, such as giving technical assistance to developing countries, without having to go through all those problems we have to go through in order to work within the ILO. We find ourselves fighting that fight all the time and dissipating our energies that way. If we have to do that, I would just as soon see us not participate and try to do things directly."

Within the ILO structure, 72 nations pay the minimum dues per nation—.02 percent of the ILO budget. Together, these nations provide 1.44 percent of the budget and represent 53 percent of the voting strength. The U. S. and major industrial nations of the Free World furnish 68 percent of the funding, but have only about 15 percent of the voting strength.

Reversal unlikely

Sometime this month Secretary Marshall is to call the cabinet-level meeting for the final review before the Nov. 5 deadline.

He told NATION'S BUSINESS that "something might happen" to keep the U. S. in the ILO, "but the probability is very low that it will. Since the ILO is a tripartite organization, and with unions and employers already having made pretty firm decisions to withdraw, it would be practically impossible for the government to take contrary action unless the employer and union representatives could be convinced they were wrong.

"I haven't seen anything yet that would cause me to want to try to convince them of that." □



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BUTLER

Shaking Up a Company for Solid Growth

Pillsbury Co. sales and earnings have more than doubled since William H. Spoor took charge in 1973. In this interview Mr. Spoor describes how it has been done



WILLIAM H. SPOOR is the classic corporate mover and shaker.

He moved into the chairmanship and chief executive's chair at The Pillsbury Co., in January, 1973, and he has been shaking up the 108-year-old food products company ever since.

Some Pillsbury executives have gone to other firms, executives have been brought in from outside, several old Pillsbury divisions have been sold off, some sales lines have been terminated, ground has been broken for a new headquarters building in downtown Minneapolis, and Pillsbury has been locked in battle with McDonald's in the hamburger business.

A great deal more has taken place since Bill Spoor was promoted to the top from vice president and general manager of a company division, Pillsbury International. For example: The year before Mr. Spoor took charge, Pillsbury had net sales of $667 million and net earnings of $19.8 million. Last year the comparable figures were $1.4 billion and $41.6 million.

Bill Spoor puts in five long, hard days at work each week, but finds time for relaxation with his family at their home on Lake Minnetonka, near Minneapolis. He has a boat there for fishing and fun and a large home library. The Spoors—father Bill, wife Janet, daughters Melanie and Cynthia, and son Lincoln—are all avid readers, and they enjoy each other's company.

Bill Spoor's favorite subject is the history of the American West. His favorite historical figure is Abraham Lincoln, for whom his son is named. He has read more than 60 books about the Civil War President and is looking for more.

Mr. Spoor was born in Pueblo, Colo., 54 years ago. He took his undergraduate education in the East, at Dartmouth, and an executive development program in the West, at Stanford. He joined Pillsbury soon after leaving Dartmouth and spent all of his years there in the international division before becoming chairman and chief executive officer.

A thorough planner, he describes what he wants for Pillsbury in the following interview with a NATION'S BUSINESS editor.

Pillsbury bears slight resemblance to the company that existed in 1972, before you became chairman. What were the key moves you made?

Over the years each Pillsbury management team has strengthened and broadened the company before passing it on to a successor. It was like a relay—each management ran the best race it could and then passed the company on to the next team. So I

inherited a growing and prosperous Pillsbury.

Soon after I became chairman, in a period we call Phase One, we made a number of additions to the fine management team we already had—we added men and women who would bring balance and enhance the effectiveness and overall success of the company. We laid out our objectives, plans to achieve them, and a timetable. There was restructuring of activities and repositioning of people. This required divesting some businesses and acquiring others.

A major goal was to make Pillsbury exclusively a food company. We also needed and wanted management credibility—with our board of directors, investors, our customers, the general public, our employees, and ourselves. To do this, we had to have consistency in performance and above-average growth in sales and earnings.

The original goals have all been exceeded.

Early in the restructuring we withdrew from the poultry, publishing, wine, and fresh flower businesses. We purchased a chain of restaurants called Steak and Ale, and we internally developed the Poppin Fresh Pie Shops. The Burger King restaurant operation, which we inherited from the previous management team, was an exciting growth vehicle, and it continues to be. We also acquired Totino's, a well-positioned frozen pizza company, and Wilton, a highly successful cake decorating company. And we have an agreement in principle to purchase American Beauty Macaroni Co.

In terms of people, we added eight or nine top executives, made many internal promotions, and had some separations. We felt each change was made to help strengthen Pillsbury. So far all our acquisitions have been successful, and our divestments are basically behind us. We are organized into three major groups—restaurant, consumer products, and agriproducts.

Now we are positioned for Phase Two.

What is that?

Phase Two includes a five-year plan that will make Pillsbury a truly great corporation. We have agreed on the dimensions and characteristics of the new Pillsbury, and we know what must be done to get us there.

In brief, the plan calls for maximizing the results of our existing businesses, successful internal development, and selective acquisitions.

We are also interested in exploring new areas for future growth. We want to get into something new to Pillsbury. We call it by the code name, Super Box. We expect Super Box to be an activity in the food or food-related area.

In selecting new executives, what do you look for?

"We lay out company intentions and goals for all to see—management, directors, investing public, and employees. What needs to be accomplished, how it will be accomplished, and when are clearly spelled out."

The most highly qualified man in the field.

We brought in Dr. Philip Aines, who headed Procter and Gamble's food research and development. He now heads our entire research and development effort. Among several other outstanding people we added are Raymond Good, who formerly was president of Heinz, U. S. A.; Walter Scott, who was associate director of the federal Office of Management and Budget; and Don Smith, past senior executive vice president and chief operations officer of McDonald's.

Many of us have been with Pillsbury for most of our careers. We needed a different blend of talents to be successful in a rapidly changing world.

We also inherited many great people with our acquisitions. Norman Brinker, of Steak and Ale, is a good example; as are Art Rosewall, with Burger King; and Norman Wilton, with Wilton Enterprises.

What must you be wary about in a fast-changing company?

Moving too fast. We want evolution, not revolution.

You need to do a lot of thinking, a lot of planning, before implementation.

Our acquisition of the Steak and Ale chain took six months. We studied divestment of our poultry business for 12 months before we decided to proceed.

At a time of many drastic changes, how do you keep peace in the corporate family?

Well, there isn't always happiness on everyone's part.

Running Pillsbury is not a popularity contest.

People believe you if they understand the objectives and rationale. They may not like the game plan if it affects them negatively, but they will understand it.

Do you have any special system for keeping tabs on how the company is doing?

Yes, we lay out company intentions and goals for all to see—management, directors, investing public, and employees.

What needs to be accomplished, how it will be accomplished, and when are clearly spelled out.

Once these things are done, we measure our performance against our plans and against results of the previous year.

We actually keep a report card. This report includes another factor—how we are doing in relation to 12 target companies that are in busi-

nesses similar to ours. Are we progressing or not? That's the issue.

What are some of these companies?

General Mills, General Foods, Ralston-Purina, Kraft, and McDonald's, to name five.

We study these companies and compare our performance with theirs.

We also judge the performances of our divisions and discuss the findings with our board. We measure which objectives were reached and which were not. Then we decide what to do about the failures.

One of our overall objectives is for Pillsbury to be number one or number two in every category of the food industry in which we participate.

It must be tough to decide to sell off an old company division.

It is a very tough decision because people are involved.

Divesting ourselves of our poultry business was hard, but we had to do it. Some Pillsbury people wanted to keep the poultry business, but it was too cyclical.

The poultry division had about $140 million a year in sales. Several thousand employees were in that group. They had to be taken care of. Fortunately, they were. We took our time and found a buyer. The business was sold to a very fine company, and all of our people in that division went with the buyer.

It was a happy ending for us. And Pillsbury found better uses for its capital.



"We actually keep a report card. This report includes how we are doing in relation to 12 target companies that are in businesses similar to ours. Are we progressing or not? That's the issue."

You are said to be on the lookout for something big in Europe to acquire.

Our basic opportunities and challenges are here in the United States.

The rapid growth of the fast foods business has surprised many people. What is the outlook now?

Strong operations are going to get stronger; weak operations will fail.

There will be continuing changes in presentation of fast foods. There will be a constant upgrading of restaurants, with improvements in service, decor, and ambience.

For our part, you will see scaled-down Burger King restaurants opening in smaller towns of 10,000 or so people.

One thing you will not see is a slowing down in the growth of the fast foods business in the near future.

Will most of our meals soon be cooked in microwave ovens?

Not all, but a lot of them. Microwave ovens represent the biggest change in the American kitchen in 100 years.

Today two problems exist with the ovens.

All ovens are not calibrated the same. This means you have to cook the same dish one minute in one kind of oven and two minutes in another. That's the first problem.

The second is that food manufacturers have not concentrated on producing quality foods for microwave ovens. Most foods for microwave ovens are adapted for them. Recipes say, if you want a food prepared in a microwave oven, do thus-and-so to the food, and if you want it prepared in a regular oven, do something else. If a food item were made specifically for cooking in a microwave oven, it should taste better when prepared that way.

Microwave ovens are quick, clean, and easy to operate. Thus far, however, there is a low penetration of microwave ovens in homes here. In some Japanese cities, 50 percent of the homes have microwave ovens.

We have fast foods, canned foods, frozen foods, dehydrated foods, dried foods, fresh foods. Now comes the retort pouch. What is that?

It is a pouch containing food that is preserved by a sterilization process. This process allows a store or a housewife to keep a food product without refrigeration, canning, or dehydrating.

There is little loss in quality, taste, or appearance. The food can stay on the shelf at least as long as canned foods.

Incidentally, the retort pouch is in wide use in Japan.

Will we ever pop down a pill and call that lunch?

I don't think so, and I hope not.

With fast foods and snacks, are we getting out of the three-meals-a-day habit?

We are already out of it. Most American families are also out of the habit of eating together. Don't knock snacks. Many of them are highly nutritious, and they appeal to the

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working family, the hungry child, and people's independent nature.

Since World War II the average number of items in a supermarket has risen from 3,000 to 9,000. Will the number increase?

We will be seeing some super-supermarkets carrying 20,000 items. They will be in special shopping locations serving enormous numbers of people.

Otherwise, there will be more specialized, smaller markets. The main trend is to smaller markets that are oriented toward their neighborhoods. They will carry only the number one and number two-selling items in any category. The third and fourth sellers will not be stocked.

You are already seeing smaller markets that fit the needs of the people who live nearby. In affluent neighborhoods, for example, these markets have extralarge gourmet sections.

Medical researchers say some foods may cause cancer. What are people in the food industry doing about this?

Pillsbury supports the policies of our government in terms of its recommendations and findings. We do not sell problem foods. Food safety is foremost with us.

You must work a long day.

About ten hours—no more than that, unless something major is under consideration.

I usually work only five days a week and rarely do Pillsbury work at night or on weekends. However, I am on several outside boards of directors. I do my work for those boards on weekends.

What relaxes you most?

My favorite is tennis. I play two or three times a week—indoors in winter, outdoors in summer. I'm not much for spectator sports except football.

You played football at Dartmouth?

I played end, and I was a high hurdler on the track team. But that was a long time ago. I couldn't make either team today.

Do you have a summer home or a boat?

I have a boat, not a summer home. We live on Lake Minnetonka near Minneapolis, and we enjoy that location the year around.

What gives you the most pleasure besides a glowing annual report?

My family. We have a close and happy family. I also enjoy history. I have a good library and read a lot. So do my wife and children.

Your Burger Kings sell a lot of hamburgers. Do you eat them yourself?

Yes, I love them. I really do.

As a history buff, have you thought about the derivation of the hamburger?

The earl of Sandwich is credited with originating the first sandwich, so he was the father of the American hamburger.

The good earl was named John Montague, and he loved to gamble. One day in 1762, he gambled for 24 hours without stopping. To avoid leaving the gambling tables, he had meat and other fillings put between pieces of bread. That way, he could gamble with one hand and eat with the other.

Since the hamburger is thought to be an American concoction, it is interesting to look into the history of the earl.

He was first lord of the British Admiralty during the American Revolution, and now his name is connected with one of the main items of food in America. Furthermore, the English explorer, Capt. James Cook, named a set of islands in the Pacific after the earl. The Sandwich Islands are now the state of Hawaii.

So we have the hamburger sandwich—very nutritious. It has meat, bread, often something fresh like lettuce and tomatoes, some tasty dressing, sometimes cheese. It can be a complete meal.

What else do you enjoy eating?

Desserts. I especially like pies. Actually, I enjoy all foods.

You are athletic-looking. Have you gained much weight?

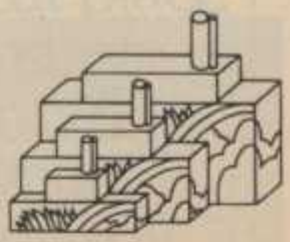
Some, since college, of course. But just because you eat a lot, you don't have to get fat.

How about gourmet foods?

My wife is a gourmet cook. She can happily stay in the kitchen all afternoon preparing a unique meal for our family.

What do you do when you find something on the dinner table at home that came from a competitor?

INDUSTRIAL DEVELOPMENT OUTLOOK



Prosperity in this country depends, in the last analysis, on the health of private enterprise. To provide services for the public, jobs for working people, and taxes to support government, businesses must be able to take root and grow. The political, social, and economic climate can help industry flourish or hinder its growth.

NATION'S BUSINESS, in its annual look at industrial development, discusses some of the challenges developers face today. An article on the impact of the Clean Air Act starts on this page. Other stories discuss how older cities can foster development with imaginative financial incentives and the economic effects of Carter administration policies, as industrial developers see them.

A Growing Threat to Economic Growth

By John Costello

Stringent air quality standards set by the Environmental Protection Agency are now being vigorously enforced, raising fears that needed industrial development will be curbed



HEAD DUE east from the Coast Guard Chesapeake Off-Shore Light.

Your first landfall, 3,000 miles away, is the coast of France.

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"If the air isn't pure here," one environmental expert asks, "where is it pure?"

The answer may be: Nowhere.

Nowhere, that is, if you measure purity in the way the Environmental



Even scenic Alaska flunks EPA's ambient air standards because of natural emissions from salt spray and from vegetation covering much of the state.

Protection Agency insists it should be measured.

Even the sea breeze at this solitary lighthouse off Cape Henry is polluted, by EPA's clean air standards.

The air here doesn't even come close to passing those standards.

In the summer of 1976 Virginia's State Air Pollution Control Board monitored the air at Chesapeake Light for one of the major pollutants on EPA's blacklist: photochemical oxidants, or ozone. Oxidants are the most common form of smog.

"Oxidant levels at Chesapeake Light equaled or exceeded the national air quality standards for 211 hours from July 6 to the end of September," says Lucien B. McDonald, director of the Virginia State Air Pollution Control Board's Region VI.

What the government allows

Even with the wind blowing in fresh from the open sea, the monitor showed the air to be dirtier than the federal government allows.

"With an easterly wind," Mr. McDonald says, "the standard was equaled or exceeded on 13 occasions."

That, of course, is too much for EPA.

How much pollution is too much?

Very little. By EPA's standard, only a trace of oxidants will require air to be classified as dirty. A level of eight parts of oxidants per 100 million parts of air—for more than a one-hour period in an entire year—is too much.

One authority translates that measurement into familiar quantities.

"That's the same ratio," he says, "as eight ounces of gin in a 781,250-gallon martini. Or one ounce of vodka in a 6,250,000-gallon Bloody Mary."

A growing threat

To some industrial developers, EPA's view of clean air poses a threat to healthy economic growth.

"Everyone wants clean air," says Joseph R. Bagby, president of the National Association of Corporate Real Estate Executives. "Clean air isn't a threat to growth. The threat lies in an arbitrary definition of what is clean."

As many industrial developers see it, the threat is mushrooming.

One is NACORE board member Alan M. Higgins, president of The General Tire Realty Co., Akron, Ohio.

"When Congress passed the Clean Air Act of 1970," he says, "no one



Tropical Samoa, with its palm trees and beaches, is one of only two places in the whole of the U. S. which meet all air standards set by EPA. The other: the Virgin Islands.

really understood its implications. That goes even for the agency that was set up to enforce the act.

"EPA issued ambient [surrounding] air quality standards that, in many cases, were unrealistic.

"At first this didn't matter too much. No one was enforcing them with the vigor that prevails today. But the standards are being enforced now, and they're going to hurt industrial growth."

Warning from Washington

Last fall the federal Council on Environmental Quality warned that the honeymoon might soon be over.

"A potentially important, though not yet widely recognized, issue," the council said, "is whether new sources [of pollution] would be allowed in areas that fail to meet ambient air quality standards."

The Clean Air Act, the council pointed out, bans new or expanded industry in those "nonattainment" areas.

On Dec. 20, 1976, EPA resolved that question.

From then on, EPA Administrator Russell E. Train announced, no state could permit a major new plant to locate in an area that fails to meet ambient air quality standards. Unless, he added:

"New emissions from the new source—already minimized by the application of the best technology available—are more than offset by new emission reductions from existing facilities."

The announcement of EPA's offset policy "was the clincher," one developer says. "Since then industrial development has been a brand new ball game."

That was EPA's plan.

"It is time to put some real teeth into those regulations," EPA Administrator Train said.

Few make the grade

What hurt was that, as of Dec. 20, no state met all of EPA's ambient air quality standards.

"Not even Alaska and Hawaii," says Gary D. Knight, environmental spe-

How Far Must Purity Go?

Some environmentalists and their allies in Congress don't agree that the Environmental Protection Agency's standards go too far. In fact, they say, the regulations don't go far enough.

Thus, Congress recently voted to approve stiffer standards in superclean enclaves where the air already met EPA's rules for sulfur oxides or particulates. The areas involved specifically include many national parks, wildernesses, and forests, as well as other historic, recreational, or scenic sites.

Businesses must meet extra-high standards to locate near these "nondegradation" areas.

There was bitter debate in Congress over the standards, which were contained in amendments to the Clean Air Act.

Out West, nondegradation areas take in a lot of the wide, open spaces.

"Virtually the entire state of Oklahoma will fall in a nondegradation area," protested Sen. Dewey F. Bartlett (R.-Okla.). "This will certainly play havoc with Oklahoma's industrial development program."

Back East, vast areas would be off limits to many industries, too.

Sen. William L. Scott (R.-Va.) fears nondegration rules will bar most industrial development in the 200-mile long Shenandoah Valley.

"Up in the mountains, we have Skyline Drive, we have Shenandoah National Park, we have a number of [other] parks going all along the valley which goes through Virginia," he told his Senate colleagues when debating with Sen. Edmund S. Muskie (D.-Me.).

Under the legislation, he said, "we cannot establish industry in the valley, where some pollution might come over and damage the pristine air of these parks and national forests."

Sen. Scott, a former member of the Environment and Public Works Committee, which has jurisdiction over environmental legislation, helped lead a partly successful fight against unrealistic regulation.

But the basic concept of approving extra-stringent standards for air quality in areas where it is already virtually unsullied passed both House and Senate.

Sen. Muskie, a leading advocate of the concept, hailed the 130 pages of amendments to the Clean Air Act as a workable piece of legislation.

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cialist at the Chamber of Commerce of the United States.

"The only areas that do are Samoa and the Virgin Islands."

What's verboten

EPA sets national ambient air quality standards for six major kinds of pollution: sulfur oxides, nitrogen dioxide, carbon monoxide, photochemical oxidants, suspended particulates, and hydrocarbons.

The standards are designed to ensure that the amount of these substances in the atmosphere will not exceed certain limits. All are annual standards. They set the limits for varying periods. The shortest period is one hour in a year, as in the case of oxidants. In other cases, the limit cannot be exceeded, on average, for a whole year.

In addition, individual plants in 28 industries are required to meet plant emission standards. These standards determine the amount of dust, particulates, or other pollutants that the plant may put in the air.

"Meeting the emission standards hasn't been too much of a problem," says Henry E. Beal, former chairman of the State and Territorial Air Pollution Control Administrators, "except for the steel industry. The ambient air quality standards are the chief problem for industry as a whole."

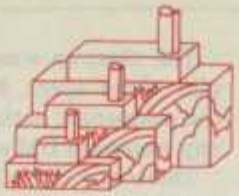
In technical terms

EPA spells out its standards in scientific terminology: milligrams, micrograms, parts per million, and cubic meters. That terminology, however, may not give laymen the full impact of the goals EPA wants achieved.

"To put things in perspective," says Jack Wunderle, chief of the office of air pollution control in the Ohio Environmental Protection Agency, "we should talk about what the standards are and what they really mean. For instance, in the cases of sulfur dioxide and particulates."

Suppose, Mr. Wunderle says, he were to take a cigarette and distribute its weight as smoke evenly over a regulation football field. The air over the field would exceed the ambient air quality standard for particulates up to a height of six feet.

"If I were to light that cigarette with a common cardboard match," he adds, "the amount of sulfur in that match would exceed the ambient air quality standard in the average home living



room, an area 23 feet long by 16 feet wide by eight feet high."

When a region flunks these EPA standards, that does not mean it is a smoky Gehenna, like the Ruhr Valley at its grimiest. Nor even like St. Louis, Mo., in the days before its pioneering antismoke law showed how to rid a big, coal-burning city of each winter's daily fallout of soot.

In St. Louis then, the measure of air quality was how often in a day you had to change to a clean white shirt.

One strike, you're out

EPA's yardstick is more sophisticated, but more arguable.

The nation is divided into 247 Air Quality Control Regions whose average size is 14,319 square miles of dry land.

Many entire states are smaller. Rhode Island's land area is 1,049 square miles. Even New Jersey, New Hampshire, Massachusetts, Maryland, and Vermont are smaller than the average area for AQCR's.

Yet if one oxidant monitoring device in an Air Quality Control Region detects a violation of an EPA standard, the entire region is in violation.

Sen. Dewey F. Bartlett (R.-Okla.), among others, has been critical of this policy.

Because of monitoring in Oklahoma City, he told the Senate, an "entire local region has been declared a nonattainment area." The region covers not only Oklahoma City but parts of central Oklahoma.

Biased toward cities

Why were the monitors all in or around Oklahoma City, instead of being placed on a windswept plain, far from city streets?

"Oklahoma City is in federal Air Quality Control Region number 184, which includes about 7,200 square miles," says John W. Gallion, chief of air quality service for the Oklahoma State Department of Health.

"But we had to put the monitoring sites in Oklahoma City because of EPA guidelines. These guidelines are heavily biased toward major population centers as locations for oxidant monitoring sites."

Sen. Bartlett urged Congress to give

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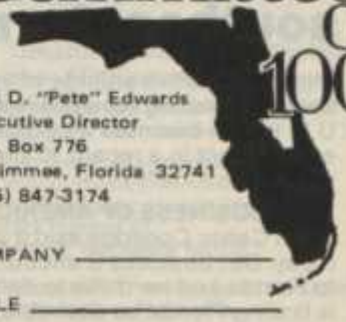


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PA	654	2,851.8	37.5
Ohio	432	2,232.7	33.2
New York	338	2,227.6	30.0
New Jersey	191	1,039.7	28.2
Michigan	189	934.6	30.4
FLORIDA	54	637.8	12.5

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the states the authority to break down federal air quality control regions into smaller units. His proposal was accepted by Congress last summer, but EPA was given the right to veto any changes the states propose.

A costly label

For a community, the dirty air label can be costly.

"We almost lost a General Motors assembly plant that would provide jobs for 5,000 people," says Harry W. Birdwell, general manager of the Oklahoma City Chamber of Commerce.

By EPA's lights, Oklahoma City's air violates the oxidant standard.

Thus GM's plant fell under the offset policy that applies to "nonattainment" or dirty air areas.

Four local companies—Apco Oil Corp., Champlin Petroleum Co., Continental Pipe Line Co., and Sun Petroleum Products Co.—agreed to install floating roofs on their oil storage tanks in order to reduce emissions from the tanks. Stationary roofs permit more emissions from oil tanks than floating roofs do.

The cleanup was expensive. Champlin alone spent $200,000. However, the companies' action more than offset any emissions GM's plant might cause.

Then, and only then, was the keep-out sign removed and the automaker allowed in.

"This experience has made offset a dirty word in Oklahoma," one industrial developer says.

Stretching the deadline

Congress changed the offset policy somewhat in August, when it amended the Clean Air Act and extended the deadline for complying with EPA's ambient air quality standards. The deadline had already expired.

"In the past, finding the offsets was up to the company that wanted to build a plant," says an administrative aide to Sen. Pete V. Domenici (R.-N. Mex.), who led the fight to change the rules.

"Now the burden of finding tradeoffs or offsets may be shifted to the states."

A state air pollution control official predicts: "What will happen is that the states will turn the ratchet down on everybody to allow a new facility into an area."

Although compliance wasn't required until at least 1982, the standards were not changed. They are as stiff as ever.

"More time won't necessarily solve industry's problems with EPA," says Victor N. Sussman, past president of the Air Pollution Control Association. "It is very difficult, for example, to comply with some air standards, no matter how long you take."

Mother Nature's meddling

"We recognize that virtually the entire country exceeds the oxidant standards," says Cheryl Wasserman, operation research analyst at EPA's Policy Planning Division.

How come that is so, after seven years of effort to comply with the Clean Air Act?

Partly because Mother Nature is a major offender.

Only a third of all reactive hydrocarbons are man-made, one study points out. Two thirds are generated by nature, mostly by growing or decaying vegetation.

One big polluter isn't on any environmentalist's hit list.

The culprit is Whiteface Mountain, a handsome, 4,900-foot peak in the Adirondacks near the border with Canada.

New York State's Department of Environmental Conservation made a close study of hydrocarbon emissions there.

Citing the study, Sen. Lloyd Bentsen (D.-Texas) says that "the annual average reading there in a recent year was 0.04 parts per million, far higher than in our cities." He notes that the reading was "twice the 0.02 parts per million which is Houston's annual average."

Dirty mountain greenery

Evergreen forests which cover the slopes of Whiteface apparently are the reason for the emission level.

Sparsely settled eastern Utah, lying between the snow-clad Wasatch mountains and the majestic Colorado Rockies, is a dirty air area, too.

"Yes, many parts of Utah are nonattainment areas," says Joseph L. Platt, deputy state planning coordinator of the Utah state planning coordinator's office, "because of fugitive dust and background levels of pollution.

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"The same is true in Texas. They say you could tear down every refinery in Houston, and the city would still be in violation because of pollution from natural sources."

Labor in vain

If so, that would explain a lot.

"The state of Texas has perhaps one of the most stringent control programs in the nation," Sen. Bentsen said, during a congressional debate on the Clean Air Act.

He added that "during the past three years it has reduced hydrocarbon emissions from stationary sources—refineries, petrochemical plants, and the like—in Houston by no less than 85 percent."

Yet the state's Air Control Pollution Board reports it has seen no oxidant reductions as a result.

"In fact," Sen. Bentsen commented, "oxidant readings have actually risen."

When wind carries dust

Mother Nature may make it just as hard to meet the standards for particulates.

Russell Train, who was EPA administrator until late last year, touched on this problem when testifying on Capitol Hill in 1975. He was appearing before the Senate Committee on the Environment and Public Works, in its big, paneled hearing room in the Dirksen Building.

"It is anticipated," he told the committee, "that approximately 101 of the 247 Air Quality Control Regions in the nation will probably not attain the primary particulate standards by the mandated dates."

He was optimistic.

Even now, with those dates past, only 23 of the regions comply.

"Among the regions cited . . . as violating the annual TSP [particulate] standard are 67 where most of the particulates measured are fugitive dust," the Council on Environmental Quality says.

It adds: "Windborne dust from desert storms, from agricultural operations, and from heavy use of unpaved roads creates such problems."

In Texas last spring, dust storms raised the particulate levels high

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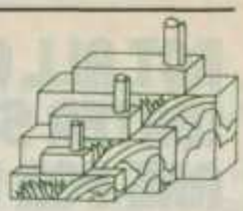
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enough in some areas to be harmful to health; by EPA standards.

When this happens, the public should be warned to stay indoors, a local EPA official cautioned the Texas Air Control Board.

This led Roger R. Wallis, the board's deputy director for standards and regulations, to say: "Our telling people in west Texas not to go out in a dust storm is like OSHA telling farmers not to step in wet manure."

Impact on developers

Mother Nature's particulates may be "factored out" of pollution readings, EPA says, if local authorities can determine the source and amount of this natural pollution. That is not easy, local authorities and developers say.

"Around here, we're so clean we squeak," says Robert E. Dorothy, executive director of the Dubuque Area Industrial Development Corp.

Yet every Air Quality Control Region in Iowa fails to pass the ambient air quality standard for particulates.

"We're finding that the standard on particulates rules out most of the United States for industrial development," says Mr. Higgins, of the National Association of Corporate Real Estate Executives.

Need for balance

"We in industrial development are all in favor of clean air," Rodger P. Nordblom, president of the Society of Industrial Realtors, says. "But there should be some balance between the needs of the environment and economic growth and job opportunities."

Gary Knight, of the National Chamber, sums up the developers' dilemma.

"The heart of the issue is the validity of the national ambient air quality standards," he says. "Congress recognized that these standards should be reviewed on a periodic basis. This has not been done."

He adds: "A lot of people remember part of the language in the Clean Air Act that explains why Congress passed it: 'To protect and enhance the quality of the nation's air resources. . . .'

"But they forget the rest of the phrase: 'So as to promote the public health and welfare and the productive capacity of its population.'" □

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3. **Which East Coast Canadian ports are hundreds of miles closer to northwestern Europe than New York or Baltimore?**
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4. **Now how about Canada's West Coast port that's well situated for Japan?**
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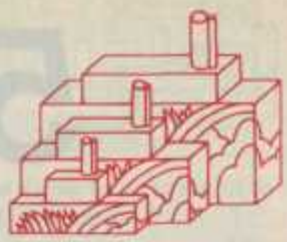
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"I CAN'T BELIEVE it," a visitor said, as he stood on the St. Louis riverfront and looked west toward downtown.

"The last time I was here, ten years ago, no new buildings were more than a few stories high. St. Louis was becoming a three-story town."

Rejuvenated downtown

Now more than half a dozen gleaming new skyscrapers, one of them the 35-story Mercantile Tower, jut into the blue over the old river city. They house banks, insurance companies, and the headquarters of major corporations.

Since 1958 more than $800 million has been spent on downtown construction—office towers, hotels, shops, restaurants, highways, and a 51,000-seat sports center.

"This is in a city," says Edward A. Ruesing, "that had seen almost no major development downtown since the 1930's."

Mr. Ruesing is executive director of Downtown St. Louis, Inc., a private, not-for-profit organization dedicated to development and promotion of downtown.

Virtually all the private investment, he says, is related to St. Louis's use of the Missouri Urban Redevelopment Corporations Law.

Breaking the ice

"The Missouri redevelopment law broke the ice," says Harry T. Morley, Jr., president of the St. Louis Regional Commerce and Growth Association. "It has been used very effectively by the city over the past 12 years."

The law has helped St. Louis solve twin problems that plague most older metropolises:

- High cost of city land and the difficulty of acquiring it.
- High real estate taxes.

Acquiring land in St. Louis was tougher than in most cities. St. Louis's area is only 61 square miles, and the city cannot annex adjoining territory.

Open land vanishes

Shortly after World War II a residential building boom ate up the last sizable tract of open land in the city. This was hardly encouraging for industrial development, a term commonly held to mean development not only for manufacturing purposes, but for a variety of business enterprises.

"By 1970," says Kenneth R. Langsdorf, former general counsel of the city's Economic Development Division, "the largest remaining tract of industrially zoned land was a mere 100 acres. There were only a few remaining parcels in the city in the 50 to 100-acre category."

Most industrial land, he says, was scattered in one and two-acre sites and still is.

Missouri's redevelopment law permits the city to declare an older, decaying section blighted and turn it over to a private developer for uses ranging from residential to heavy industry. The developer is given:

- Power of eminent domain to buy property in the blighted area.
- An abatement of taxes.

Authority and incentive

"Thus, he has the authority to assemble a useful tract of land for development," says O. O. McCracken, president of the Civic Center Redevelopment Corp., one of the first major developers to use the Missouri redevelopment law in St. Louis.

"He also has an economic incentive to do so."

The tax incentive is what makes this approach almost unique, developers say.

For the first ten years new buildings and other improvements are tax-free under the Missouri law. The developer pays annually a sum equal only to the yearly taxes paid either on the old blighted property as a whole or on the land alone.

For the next 15 years land and improvements are taxed at only 50 percent of their assessed value.

After 25 years the new industrial plant, stadium, hotel, or corporate headquarters pays full fare.

Critics and admirers

The plan has detractors and imitators.

Some St. Louisans dislike extending a tax break to developers.

Other states, however, are adopting their own versions of the Missouri statute that St. Louis has employed so

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dramatically, not only downtown, but elsewhere within the city limits.

Philadelphia is another older city with an innovative cure for urban hardening of the arteries.

"Our problems were similar to St. Louis's, but not identical," says Michael J. Dougherty, vice president of Philadelphia Industrial Development Corp.

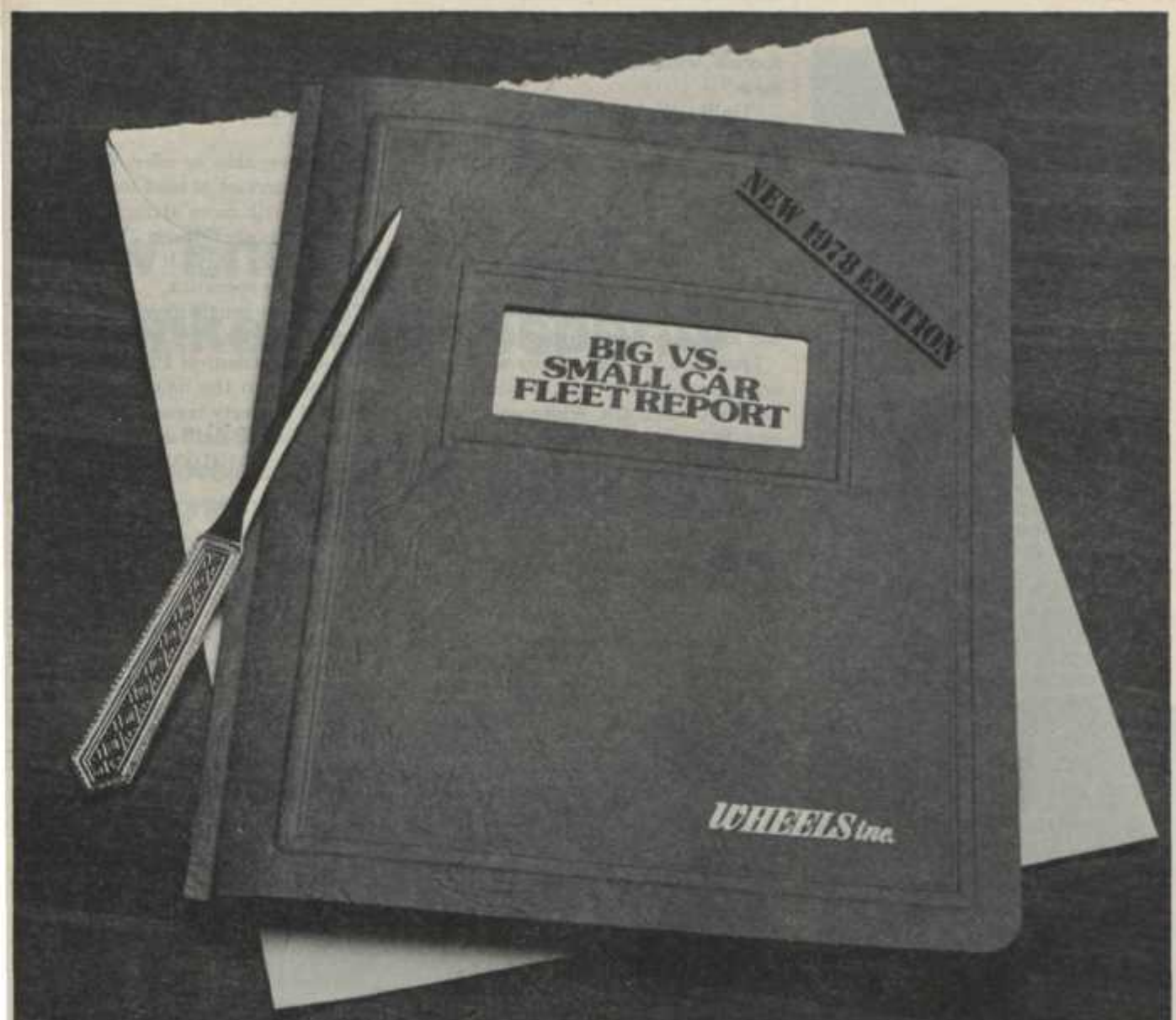
City and chamber team up

PIDC is a quasi-public corporation formed as a nonprofit partnership of the city of Philadelphia and the Greater Philadelphia Chamber of Commerce.

The corporation is governed by a 30-man board. Seven board members are key city officials, and eight are local business leaders selected by the president of the Greater Philadelphia Chamber. The other 15 are named jointly by the city and the chamber.

PIDC was incorporated in 1957. It was staffed and in operation by the following year.

"Since its incorporation," the National Council for Urban Economic Development says, "PIDC has served as a national model for industrial development agencies, primarily due to its



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success with industrial retention efforts."

"Unlike St. Louis, Philadelphia had land for development," says Mr. Dougherty, "but we did not have attractive financing until PIDC supplied it."

Low-cost money

PIDC has two financial affiliates which are able to arrange tax-exempt mortgage financing and low-cost second mortgage loans through the state.

Land and low-cost money were powerful persuaders that Philadelphia held out when the Whitman's Chocolate Co. decided to leave the city.

"Whitman's was located in an aging part of the city, near Independence Hall," Mr. Dougherty says. "Buildings in the area were slated to be condemned and torn down for renewal or rehabilitation. So the company felt forced to look for another site.

"Whitman's wasn't happy about this because it was an old Philadelphia firm, with strong ties to the city. But it didn't seem to have much choice. It found 35 acres in New Jersey, bought the tract, and was ready to move.

"That was when we stepped in."

As the official industrial development agency of Philadelphia, PIDC had land which had been donated to it by the city.

"We were able to offer Whitman's the same amount of land for the same price and with more attractive financing," Mr. Dougherty says. "The company decided to stay. It was our first major rescue operation."

"To give a rough idea of our track record," says Walter D'Alessio, executive vice president of PIDC, "we have participated in the financing of more than 930 property transactions involving more than half a billion dollars and more than 100,000 jobs."

A big challenge

Keeping economically strong is a tough job for the central cities, developers say.

"Older cities do have drawbacks," Robert E. Boley, executive vice president of the Society of Industrial Realtors, says, "but at least some industrial realtors are interested in them.

"They don't expect it to be a breeze, though. On this kind of a job, they know it is easy to bust your pick." □

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Why New Hampshire Is a Magnet for Business

This past summer the unemployment rate for the entire United States was close to seven percent. In New Hampshire the rate was about half that.

The gap was no fluke.

New Hampshire, for some years, has consistently boasted of one of the lowest jobless rates in the nation.

The state's performance is even more shining compared to that of others in the Northeast. High taxes, high energy costs, and the lure of the sunbelt have caused an exodus of jobs and people from the area.

A report on a study of the region by The Conference Board, a research group, is entitled, "The Decline of the East."

By contrast, New Hampshire's population is growing faster than the national average. The rates of growth of industrial payrolls, of value added by manufacturing, and of capital spending all outstrip the rest of the U. S.

In one 18-month period more than 80 out-of-state companies moved into New Hampshire. Critics charged New Hampshire with pirating firms from other states.

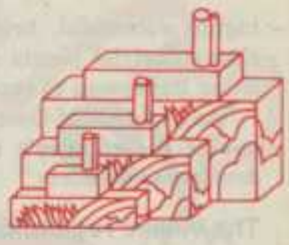
Not so, said Dr. James M. Howell, chief economist and a senior vice president at the First National Bank of Boston. "The state has developed an awesome magnetism," he explained.

Gov. Meldrim Thomson, Jr., says the reason for New Hampshire's magnetic attraction for business is no secret.

State taxation in New Hampshire is the lowest per capita in the nation, he says, "and we completed the fiscal year with a surplus. We are the only state in the union with neither a sales nor income tax."

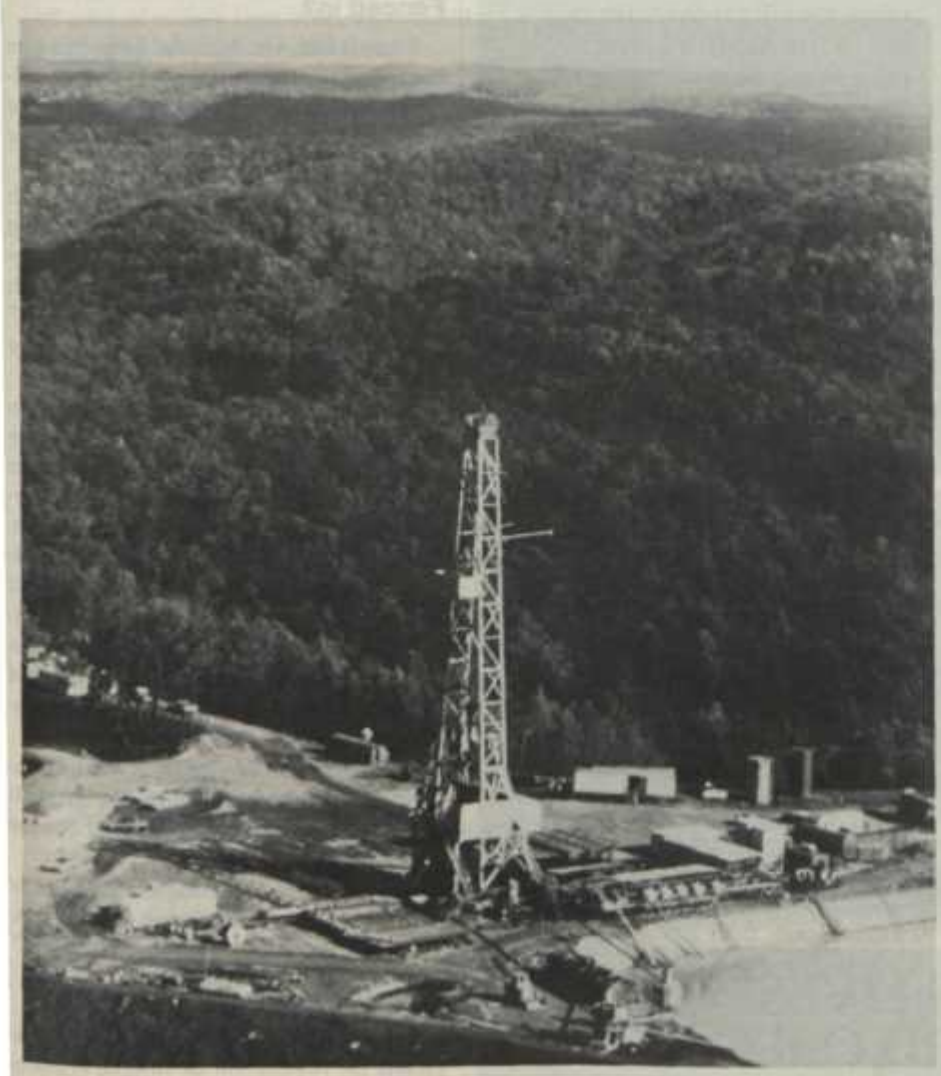
The Industrial Development Research Council recently polled its members on what attracts them to an area when seeking a site for a new plant.

Heading the list: Taxes.



How Energy Policy Is Linked to Prosperity

America is suffering from regulatory overkill, many industrial developers say. They cite the White House energy program as an example of how not to create the proper climate for expansion



Meeting the need for expanded energy sources is vital to continued U. S. industrial growth.



Dr. Michael S. Koleda is director of a White House conference on economic growth scheduled to be held next year.

JIMMY CARTER, first industrial developer to be President, isn't practicing in the White House what he preached in Georgia.

At least, that is the view of many industrial developers.

"In the early 1960's Mr. Carter served as chairman of the Middle Flint Area Planning and Development Commission in Georgia," Rodger P. Nordblom, president of the Society of Industrial Realtors, points out.

"What's more, when Jimmy Carter was chairman, the commission proved

highly successful, bringing in many new industrial plants and helping existing businesses to expand.

"As governor of Georgia, he oversaw one of the country's most successful development efforts."

The villain: regulation

If Mr. Carter would apply some of the principles he espoused in his home state, Mr. Nordblom says, the President could turn the country's economy around.

Mr. Nordblom doesn't think the President is applying them, but he is optimistic that he will.

"Jimmy Carter tried to create in Georgia the most friendly climate for business that he could," Mr. Nordblom says. "Industry responded because it felt wanted.

"The task for the President now is to create the same kind of friendly climate right across the nation."

The country is suffering from regulatory overkill, and the White House hasn't done enough to curb it, many industrial developers say. The administration's energy program is cited as an extension of the kind of regulation that already is stunting growth and depriving the nation of the jobs that growth engenders.

View from the White House

President Carter evidently agrees that economic growth should be high on the nation's agenda.

"Much remains to be done," he said recently, "if future recessions, high inflation, and high unemployment are to be prevented, and if we are to make real progress in getting the remainder of our people back to work."

As a step in that direction, he called for a White House Conference on Balanced National Growth and Economic Development to be held in early 1978.

Michael S. Koleda, director of the conference, says it will tackle "economic growth and development in an era of resource constraints and environmental quality objectives."

Fenced in?

Since 1946, Dr. Koleda adds, "it has been public policy to seek the conditions that encourage the creation of jobs in the private sector, economic growth, and stable prices.

"However, the conditions in which we attempt to fulfill this long-standing national commitment differ in many and significant ways from those which prevailed in the early postwar period."

Thus, what worked yesterday may not work today and tomorrow.

Now, Dr. Koleda says, the nation faces difficulties that include "the regional impacts of the conversion from oil to coal, the use of prime agricultural lands for nonagricultural purposes, the appropriate use of limited groundwater supplies, the impact of public policy on the national settlement pattern, and the increasing incongruence between public sector boundaries and the boundaries of public sector problems."

These difficulties, he adds, "will continue to be associated with the growth and development of the United States in the decades ahead."

"Sounds like Washington feels it is fenced in," one developer comments, "and wants to enlarge its boundaries."

Lack of focus on production

The Carter energy program's emphasis on regulation to induce conservation rather than on encouragement of more production worries developers.

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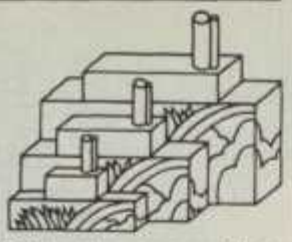
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William A. Spitzenberger, president of the American Industrial Development Council, Inc., says that "the regulatory aspect of the White House energy program concerns me a little. Government regulation is suspect at best."

He adds, however, that the program is "a good move. I commend President Carter for doing something when industry couldn't come up with a program of its own. There were 500 different opinions, and government had to do something.

"But the program is not strong on production incentives."

Robert D. Bannister, deputy director for government affairs at the National Association of Realtors, says that "the energy tax at the wellhead will siphon off a lot of money that otherwise would be plowed back into production."

Fear of a big stick

Mr. Bannister is haunted by the threat of a federal crackdown if conservation fails.

"How will conservation be achieved?" he asks.

"An aide to Energy Secretary James Schlesinger says: 'Through incentives, disincentives, commands.' It is the commands that I am most concerned with.

"The President has complained already that some of his energy goals aren't being met. If those goals aren't met, I feel the administration will impose more stringent regulations."

Slow-growth policy?

Is slow growth, if not no growth, the key to administration policy?

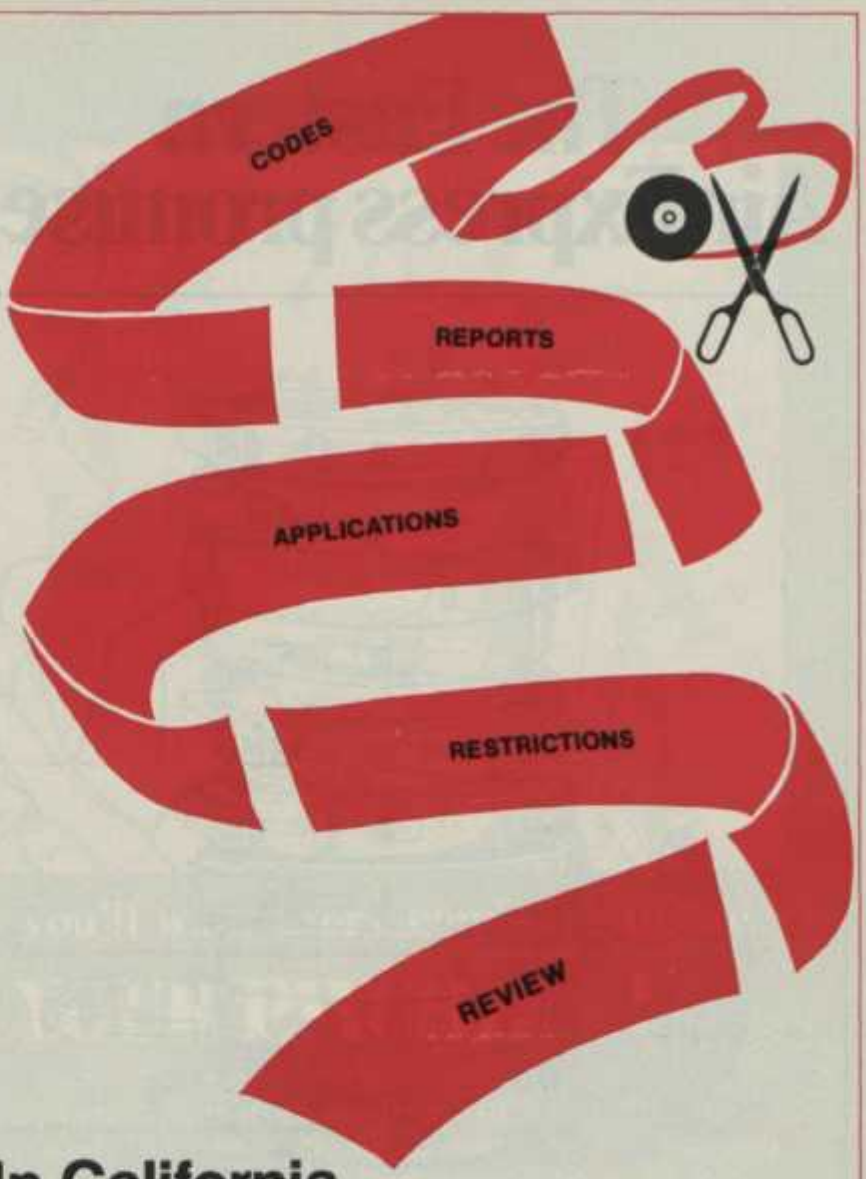
Floyd W. Lewis, president of Middle South Utilities, Inc., fears it may be.

"That philosophy seems to be the general theme of what's coming out of the White House and Congress," he says.

"The energy plan is unbalanced on the side of conservation, not on development of our immense natural resources. The administration seems to have bought the idea that there's no inevitable connection between energy use and growth.

"There is a connection.

"Washington is highly unrealistic if



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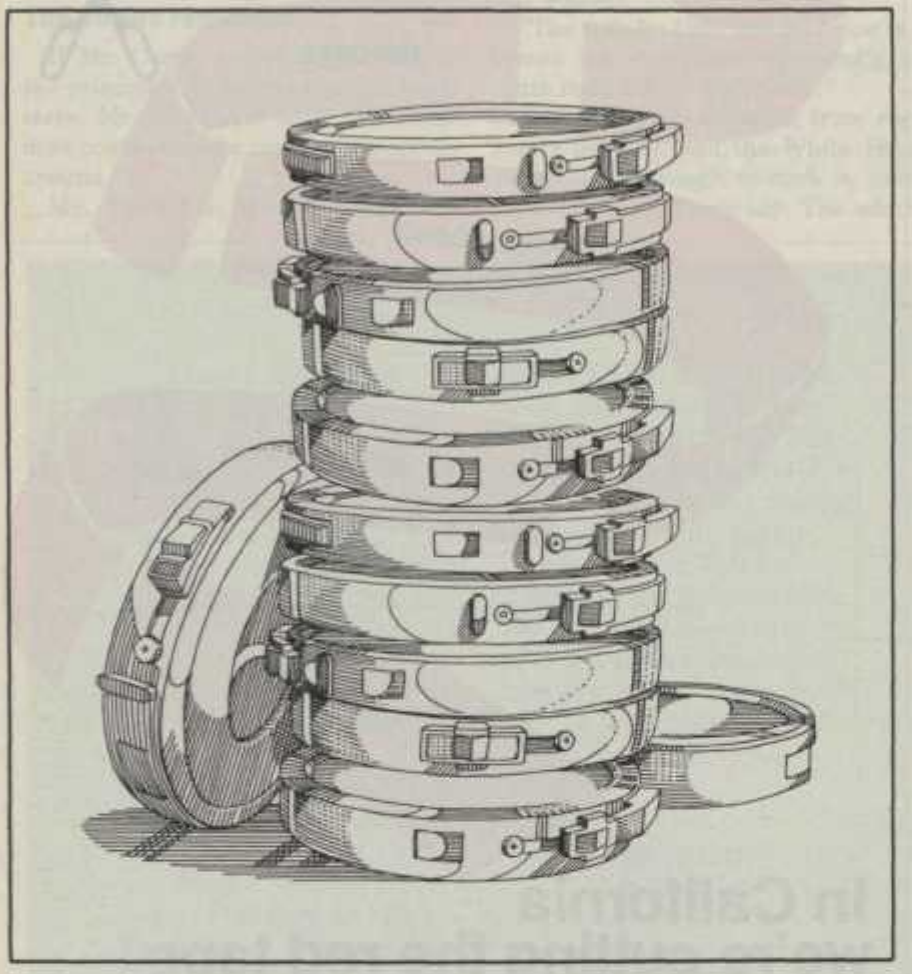
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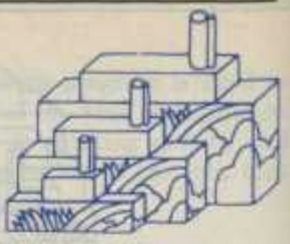
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"And without growth, you don't create jobs."

Drop in capital spending

Some developers believe the regulatory climate is already slowing economic growth.

"At this stage of the business cycle," one says, "capital spending should be booming.

"It is not."

Aaron S. Sabghir, editor of the U. S. Commerce Department's "Construction Review," expects spending on industrial construction this year to be lower than in 1976 or 1975. In the first six months of 1977 the total was $3.262 billion, vs. $3.467 billion in the same period a year earlier.

Time for realism

"Some of our regulatory agencies are going to have to be more realistic," says Henry Bostwick, Jr., executive vice president and general manager of California's San Mateo County Development Association, Inc.

"They haven't taken into consideration that there is a human environment involved, too.

"I believe the energy problem is much more serious than the people think. Yet we have been moving at a snail's pace in construction of nuclear power plants."

Jack M. Wyatt, president and chief executive officer of Louisiana Power & Light Co., concurs.

Paralysis by analysis

"All the responsible projections of economic growth indicate that the nation will need a future energy base much greater than is now being built," he says.

"Moreover, a well-organized, articulate but small minority has developed a disturbing tendency of delaying indefinitely virtually every needed energy facility by studying it to death.

"The United States is facing a kind of paralysis by analysis.

"We simply cannot afford to become paralyzed on energy development." □



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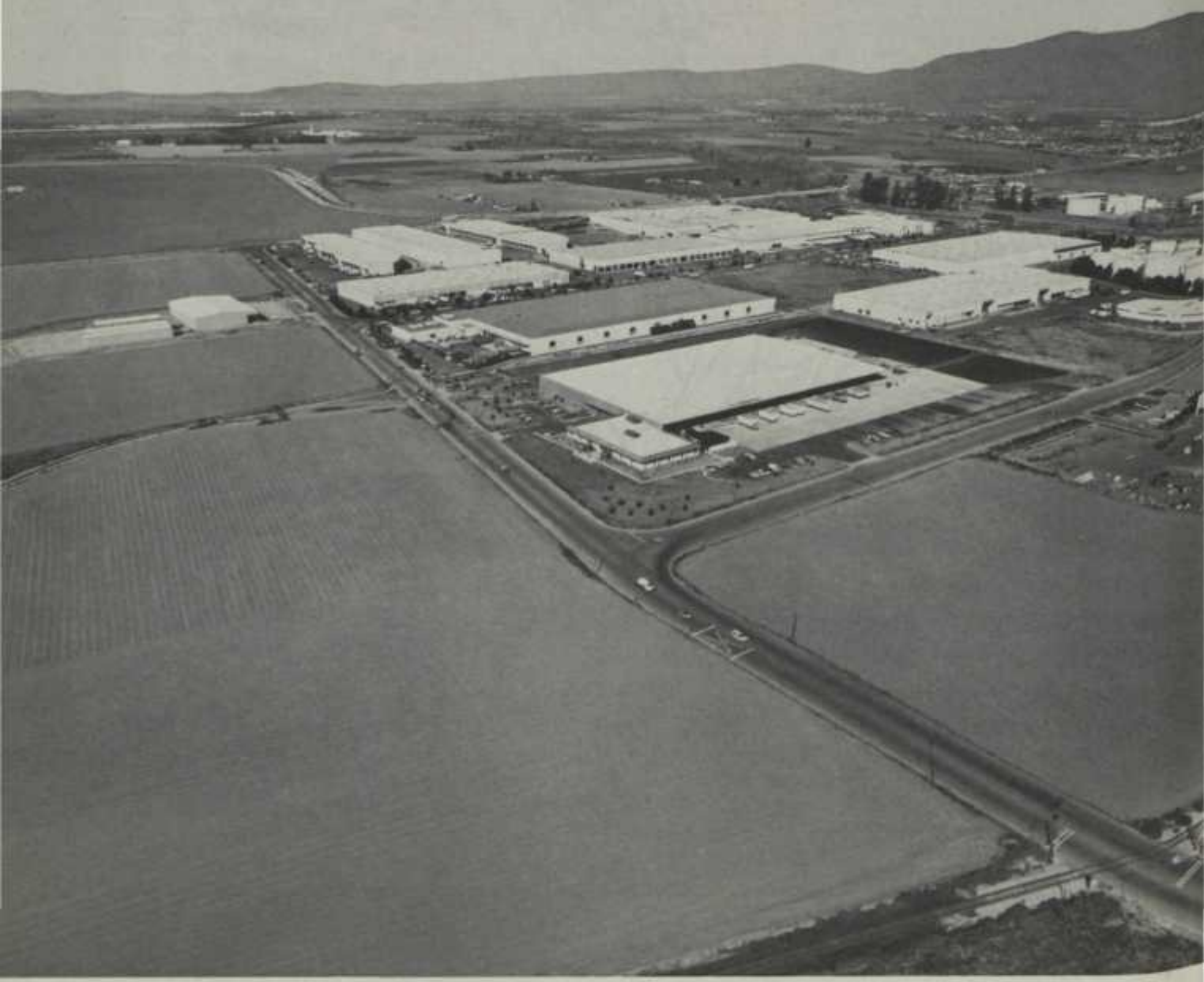
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I go into a McDonald's quite often to see what they are doing. I eat at a Whimpy's sometimes when I'm overseas, and I go into restaurants that are competitive with our Steak and Ale restaurants and our pie shops. You have to do that in our business to know what the competition is doing.

Sometimes you only take a couple of bites to test the taste. Then you check the service, the quality of foods, and how clean the restaurant is, especially the rest rooms.

Will Burger King ever overtake McDonald's?

Not in the number of outlets. McDonald's has too large a head start. Our intention, however, is to be better, have more volume, be more profitable—on a store-to-store basis. We have about 1,800 stores in the United States; McDonald's has about 3,600.

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Do Tax Laws Discourage Initiative?

THE VALUABLE insights that the nonpartisan Tax Foundation provides into government spending include a down-to-earth measure of how taxes affect the individual worker in this country.

The foundation, a research and education organization, computes how much time the average worker must spend on the job each day just to earn the money to pay federal, state, and local taxes.

In 1950 it took that average worker 121 minutes to earn enough wages to fulfill his or her tax obligations. This year the total was 162 minutes, an increase of 34 percent.

On an annual basis, the Tax Foundation points out, all the money the average worker earned from Jan. 1 to May 5 of this year was spent simply earning money to meet 1977 tax bills.

The Advisory Commission on Intergovernmental Relations, a federal panel that keeps a sharp eye on government spending, reports that the percentage of average family income that goes to taxes increased 92 percent between 1953 and 1975.

Many Americans who are worried about trends in the U. S. tax system are asking whether individual workers will continue to strive for economic betterment if they must turn over increasing amounts of their wages to the tax collector, or whether steadily increasing tax burdens will sap their initiative.

These Americans argue that current tax policies not only threaten the incentive of workers, but also discourage the capital formation needed to provide jobs. They say a policy that taxes corporate dividends twice, as U. S. tax law does, is a serious deterrent to investment.

On the other hand, there are those who say that paying taxes at higher rates should be considered a normal development for people who better their status economically—whether through promotion on the assembly line or through success with investments.

They also argue that, compared with tax rates in other nations, American rates are far from the point where they would discourage incentive through near-confiscation of increased income.

Do our current tax policies discourage individual initiative? What do you think?

PLEASE CLIP THIS FORM FOR YOUR REPLY

Kenneth W. Medley, Editor
Nation's Business
1615 H Street N. W.
Washington, D. C. 20062

Do our current tax policies discourage individual initiative? ☐ Yes ☐ No

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Readers Say: Keep Our Troops in South Korea

A BLOODY war was fought on the rocky Korean peninsula more than two decades ago. America did not quite win that war or quite lose it. It was the first major war in our history that we did not win.

Since then we have maintained military forces in South Korea. Now President Carter plans to withdraw 33,500 of the 41,300 American troops, leaving only airmen and a small naval force.

"The Sound Off to the Editor" question in the August issue of NATION'S BUSINESS was: "Should the U. S. pull its ground forces out of South Korea?" By a margin of three to one, readers say no.

"We should pull Mr. Carter out of the White House and put him on the demilitarized zone [dividing South and North Korea] for a while," says Edward J. Rawnsley, president of St. Charles Designer Kitchens, Summit, N. J.

"It would be a mistake to pull out. The only deterrent to another war there is the presence of U. S. forces," says W. Richard Merritt, vice president of North DeKalb Office Supply, Chamblee, Ga.

Says George J. Atwood, State Farm Insurance Co. agency manager in Lansdale, Pa.: "The U. S. must keep a strong armed force in the western Pacific. The threat of war makes this necessary. A continuous vigil must be kept or we could have another Pearl Harbor."

The future of Japan, America's principal ally in the western Pacific, and our relations with that country, are mentioned in scores of responses.

Richard E. Clunk, county manager for the Marion Production Credit Association, of Bucyrus, Ohio, says: "Any threat of conflict should be guarded against at this time. Our relations with Japan should also be protected at all costs. Our constant withdrawal from foreign influence is very dangerous to overall U. S. welfare."

William N. McCallum, vice president of Lafayette Bank & Trust Co., of Lafayette, Ind., says: "It would be an invitation to China or the Soviet Union to take over the western Pacific. Who would be next? Maybe our only other major ally out there, Japan."

Fred P. Burton, assistant vice president of Murray First Thrift & Loan Co., Orem, Utah, says that "we need to protect our relationship with Korea, and more importantly, with Japan."

Monetary costs figure in many answers, too.

James Padilla, manager of Leacom Cablevision, Inc., in Truth or Consequences, N. Mex., says: "The cost of moving the U. S. Second Infantry Division [now in South Korea] would offset the benefits. South Korea needs American help in the field, as well as in the air and on the water. As a citizen, I would rather pay whatever we are paying, and keep North Korea in line, than have another small country fall after we have spent so much there in money and lives."

Mark M. Mercer, office manager for Walters Lumber Co., Inc., Chatham, N. J., says: "Our pulling out would only lead to the defeat of the South Korean forces. If we pull out, all our expenses and efforts to date will have been for nothing. We must stay until the final goal is reached and the country can be self-protecting."

On the other side of the question, Raymond C. Sopchak, manager of the Colonnade Co., Pittsburgh, advocates pulling out American troops because "the South Korean army, with American air support, is a definite deterrent to a future North Korean invasion." Then he goes on to say that "President Carter proposes human rights, but backs a dictator [South Korean President Park Chung Hee]. And Japan has no huge defense bill to burden her."

"We should never again fight a land war on the continent of Asia," says Richard E. Galvan, a certified public accountant in Long Beach, Calif. "Air and naval support are okay. Let the Asiatics supply the infantry. It is less costly to help build their land forces than supply our own." He was wounded during the Korean War in the infantry.



Harold B. Holtzman, agent for State Farm Insurance Co. in Hamburg, Pa., says: "I feel we have paid too dearly in American lives to give South Korea to the communists, which is what we would do if we pulled out."



Fred M. Skipper, Jr., vice president of Wyn Shields Co., Inc., North Charleston, S. C., argues that our troops should stay in Korea because "the best defense of peace is a strong military."



I. J. Andrasik, research chemist for International Fabricare Institute, of Silver Spring, Md., a research center, asks: "When are we going to stop doing things that the communists want us to do?"

John W. Howell, Jr., president of Howell & Associates, Inc., Springfield, Ohio, says: "The U. S. cannot police the world forever. We cannot afford to keep troops all over the world, especially for a dictator such as Park Chung Hee."

Everett O. Terrell, secretary of CTA-Architects-Engineers, Billings, Mont., agrees about America's global role. "We should pull out all forces from South Korea," he says. "We are not rich or powerful enough to police the entire world. We should learn to mind our own business and not try to press our form of government on everyone."

George W. Rennix, president of Medical Personnel Pool, Grand Rapids, Mich., says: "The 'ugly American' syndrome is still prevalent in areas where we muster troops for the safeguarding of a people. We need to detach ourselves from this role whenever and wherever possible. The time has come for South Korea to affirm that it can stand on its own merits and muscle."

Milton H. Leubecker, general manager for Bethlehem Steel Corp. in Baltimore, is among those who mention Japan's future in arguing that American ground forces should be kept in South Korea. "Withdrawal of our troops," he says, "would only lead to eventual takeover of Japan by the communists."

On the other hand, J. T. Van Voorhis, who favors a pullout of U. S. troops, says that "Japan has the ability and economic strength to fill the void created by our withdrawal." Mr. Van Voorhis, chairman of Barnes & Brass Co., Clarksburg, W. Va., adds: "Too long have we been the source of too much for too many small countries."

And John Knowles, marketing manager at Quartz Radiation Corp., Fairfield, N. J., says: "Let the Japanese supply the defense materiel. They are the chief benefactors of a free South Korea. A U. S. pullout is long overdue."

James E. Rubright, superintendent of city schools in Norwalk, Ohio, asks: "Is physical presence, in this age of technology, really necessary to deter aggression? It would seem that any of our military obligations could be fulfilled from the U. S. mainland if we carefully watch world activities."

Gary Savage, service coordinator for Flynn-Hill Elevator Corp., Long Island City, N. Y., says: "Nearly three decades of American training, money, and material should be sufficient time for the South Koreans to have developed an armed force capable of acting as a deterrent to North Korea."

J. H. Ensign, vice president for finance at Carlisle Tire & Rubber Co., Carlisle, Pa., agrees. "After all this time," he says, "one would think that the people of South Korea would be able to take care of themselves against an attack by the North Koreans." He adds: "If aggression were in fact to take place, aid should come from the United Nations."

On the majority side, Edward F. Howerton, a superintendent at Northwestern Steel & Wire Co., Sterling, Ill., says: "Our position in South Korea is vital to world peace."

A U. S. troop pullout would be a disaster, Fred J. Nichols, president of LectroMagnetics, Inc., Los Angeles, says. He says America has "for too long been in a retreat posture" in terms of armed strength.

And Siegbert J. Weinberger, president of Eastern Transatlantic Corp., New York, says: "There is no place in the world where America can afford to withdraw." □

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Energy Secretary James R. Schlesinger has almost-automatic access to the President. The two admire each other despite vastly different backgrounds outside government. Dr. Schlesinger's was in academia; the President's, in business and the Navy.

New Energy Department: Where It Goes From Here

The federal government's first new cabinet-level department since 1966 will be an agency to watch because it will affect the life of every American. Business will be asked for input on many of the department's decisions

IN THE hallway of the stately old Executive Office Building in Washington, where the new Department of Energy is temporarily quartered, is a sign that reads: "This elevator removed from service to conserve energy."

That is one indication of how seriously official Washington is taking America's energy problems. A more important indication is the speed generated in creating the department. Congress voted it into existence only five months and one day after President Carter proposed it last March.

Appointments being made

When fully manned, within a few weeks, the department will employ 20,000 people and have a budget of $10 billion. That will make it the seventh largest federal department in money and the tenth in personnel.

In importance to the business community, the new Energy Department ranks near the top. It will daily affect the personal life of every American.

At present the department is a shell that is rapidly being filled with personnel. Executives are coming in both from industry and from previous federal jobs.

Eventually about 5,000 of the department's employees will be located in the Forrestal Building near the foot of Capitol Hill. This is a choice location, and its selection as the Energy Department's headquarters has caused a small furor because Defense Department employees have had to move out, some away from the Washington area altogether. Other Energy Department employees will be stationed in various parts of the country.



PHOTO: HARRY CASTELLER

The new Energy Department got a prestigious Independence Avenue address in Washington when President Carter ordered Defense Department employees moved out of the Forrestal Building to make room for 5,000 Energy Department workers.

War threat in Middle East

The threat of a new war in the Middle East, where an increasing amount of U. S. oil comes from, gave impetus to the move to set up the department. For six years there had been on-again-off-again plans to form some sort of an energy department that would be the political overlord for the vast energy-producing and energy-using industries.

Other factors working in favor of establishing the first new cabinet-level department since 1966, when the Department of Transportation was set up, included: the possibility of another oil embargo such as the one in 1973-74; the rapid diminishing of available energy resources in this country; the ever-increasing consumption of energy materials by Americans; and the desire of many Washington officials to control and conserve energy materials for national defense.

American business generally supported the idea of consolidating energy programs and agencies into one department, and there was no major business dissent to the naming of Dr. James R. Schlesinger as Secretary.

The President, with the approval of Congress, has put under the department's wing the Federal Energy Administration, the Energy Research and Development Administration, and the Federal Power Commission. FPC is to be replaced by a new department commission, the Federal Energy Regulatory Commission.

The Energy Department also assumes dozens of functions formerly housed in five other federal agencies. Additionally, the department has absorbed operation of some independent regional dams and other energy projects.

During times of national emergency declared by the President, the Energy Department can take a variety of additional actions, some of which would be subject to congressional review.

An Office of Inspector General is to be responsible for auditing and investigating department activities. In addition it is to promote efficiency and prevent fraud and other misconduct. The inspector general will report annually to the Secretary of Energy, the Federal Energy Regulatory Commission, and Congress.

The department is instructed to give Congress, through the President, detailed five and ten-year energy plans every two years. Plans must state national energy goals and must review estimates of energy resources and problems.

Flow of information

Congress designed the department to be one of the most scrutinized operations in Washington. An Energy Information Administration was created within the department, and the administrator of this agency is now charged with operating data collection and analysis programs.

Oil and gas companies will supply the agency with periodic information about existing energy supplies and availability as well as with information about company profits, cash flow, costs, and exploration activities. Many Energy Information Administration functions were originally provided for in the Energy Supply and Environment Coordination Act of 1974 and the act of the same year which created the Federal Energy Administration.

Several sections of the legislation that created the Energy Department were written to increase and improve the flow of information to the public, government officials, and business firms.

Wrong emphasis?

While the business community generally favored establishment of the Energy Department, there was no unanimous business approval for certain phases of it.

Business groups argued that the bill creating the department tended, while emphasizing the importance of energy conservation, to slight the importance of developing new energy sources and additional energy production.

Defenders of the department deny that new sources and increased production will be slighted.

In another regard, business compromised in its position on the formation of the department. Business wanted decontrol of oil and natural gas. In the absence of this, business wanted the department to include a



PHOTO: RICHARD LAWRENCE STACE—BLACK STAR

City scenes such as this will be far less familiar in five or six years if the new Energy Department and Congress get their way. Automobiles, on average, will be much smaller, weigh about a third less, and get many more miles per gallon.

bipartisan, autonomous board which would exercise existing controls on gas, oil, and electricity. The board would make multibillion-dollar decisions on such matters as pricing of natural gas and oil, allocations to various wholesalers, and curtailment of gas deliveries, when necessary.

Business did not want these duties invested in the Secretary of the Department of Energy, regardless of whom he might be, nor did business want a President to have such power. It was feared that partisan politics might sway the Secretary or President in making decisions.

The formation of the Federal Energy Regulatory Commission within the department comes relatively close to meeting the business community's desires.

FERC, a five-member board, is bipartisan, but it is not completely autonomous. The Secretary of Energy is empowered to propose commission actions, intervene in commission proceedings, and set time limits on commission deliberations.

Sunset provision sinks

Last summer, during congressional deliberations on the new department, the House attempted to call for abolishing the department on Dec. 31, 1982, unless Congress saw fit to renew the department's mandate at that time. The attempt was beaten back when conferees from both the House and Senate put the final bill together. The defeat of this sunset provision brought a sigh of relief from federal officials who were then laying plans for the proposed department.

"You don't form cabinet-level departments for only four or five years," one department spokesman says. "They are permanently set up, and sunset provisions should never be applied to them."

Under the law, however, the President and the department must report to Congress on how things are working out by Jan. 15, 1982.

"We certainly can live with this report-card system," the department spokesman says.

As for the Federal Energy Regulatory Commission, he adds: "The Secretary and the commission can operate together effectively, although perhaps not so comfortably."

It now remains to be seen how fast the President, the department, Congress, and business move to reduce energy use, find and develop new energy sources, and expand coal mining and production of nuclear and solar energy—all steps that will help the U. S. to reduce its ever-increasing dependence on imported oil, especially oil from the turbulent Middle East.

Coming in Congress

The Senate is working on its version of a national energy policy bill. The House passed its version early last August at nearly the same time that the new department was approved.

Conferees will meld the two versions into one bill and send it to the White House for signature—a development that could take place this month. Then, assuming the President signs the measure, its implementation will be up to the department.

Dr. Schlesinger, the Energy Secretary, is a New Yorker who has served under two Republican Presidents. He has been assistant director of the Office of Management and Budget, chairman of the Atomic Energy Commission, director of the Central Intelligence Agency, and Secretary of Defense.

He is a hard-liner in dealing with the Soviets and a believer in nuclear and solar energy as major sources of power and heat in the future.

At the Defense Department, he often called for increasing American military spending and armed strength. This put him in a position, not opposite to, but somewhat different from that occupied by Henry Kissinger, then Secretary of State. President Ford removed Dr. Schlesinger from the Pentagon job in November, 1975, reportedly at the demand of Secretary Kissinger.

Dissent on nuclear power

The only loud dissent to Dr. Schlesinger's newest federal appointment came from a small group of environmentalists who claimed he is too much of a nuclear power advocate.

President Carter currently finds little favor with fast-breeder nuclear reactors, which produce more fuel than they use. Rather than take a public position opposite to his chief's, Dr. Schlesinger urges studying the environmental effects of the fast-breeder.

The new Secretary says he believes that, by 1985, the rate of growth of energy consumption in the U. S., which has been four percent a year, should be reduced to two percent. He hopes to see gasoline consumption cut ten percent below the

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PART V

"Nuclear Power: A Passport to the Future"—Even after having nuclear energy at work in our country for about 20 years, too few Americans appreciate its worth and its reliability. Its contribution must be understood if future energy needs are to be met.

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"The Political Answers"—The United States desperately needs a national energy policy—a coordinated effort to conserve and a maximum effort to explore and develop energy sources. To meet this vital need, actions must be taken in government at the local, state, and national levels.

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current levels; energy efficiency improved in 90 percent of residential buildings, schools, and hospitals; coal production increased to at least 400 million tons above 1976 levels; and solar energy used in more than 2.5 million homes.

Dr. Schlesinger says that his department hopes to "get imported oil down below six million barrels a day. That strikes us as the right balance between vulnerability and dependence, on the one hand, and taking advantage of the resources that are available overseas."

He cautions that "the world cannot expand its oil production capacity much beyond its present level, and we had best begin a transition now to a world in which we should be less dependent upon oil."

The oil import flood

In the late 1950's the U. S. imported about one million barrels of oil per day. Today we bring in almost ten million barrels daily, which costs us $45 billion yearly. It is this tremendous increase that worries President Carter as it bothered his two predecessors in the White House.

U. S. use of foreign oil has gone from about 30 to more than 45 percent of total consumption since 1973. At that time, foreign oil-producing nations quadrupled their prices, and several of them declared an embargo on shipping oil to the United States. Both the jump in prices and the embargo followed the 1973 Israeli-Arab war. There have been three other Israeli-Arab wars and hundreds of border skirmishes in the past 30 years.

Disputed claim

Department spokesmen say the energy bill which passed the House in August would reduce oil consumption by only 2.6 million to three million barrels per day.

Dr. Schlesinger and the department hope that the Senate will produce an energy bill closer to the administration's original desires, which included steps that department spokesmen claimed would eventually conserve 4.5 million barrels daily.

This claim is disputed by the business community, the General Accounting Office, the Congressional Research Service, the Office of Technology Assessment, and others.

The National Energy Act which is now before the Senate is an inch-and-a-half thick document.

The act requires the Department of Energy to formulate a host of specific regulations which are to be promulgated within 60 days of the act's passage. This calls for a monumental task by the department: promptly conducting hearings at which the business community and others can give their views.

The regulations would eventually involve such matters as fuel pricing, energy-efficiency standards for appliances, utility rates, exceptions from mandatory conversions to coal, and oil and gas-use taxes.

The department also hopes the final version of the National Energy Act will call for revising the nuclear licensing process to remove complicated redundancies and make site selections for nuclear plants easier.

Energy is a trigger word in Washington these days. The subject draws wide bipartisan attention. Not many years ago this was not so.

A 1971 attempt to form a Department of Natural Resources and Energy died before reaching a vote on Capitol Hill because there was no overriding desire to create such a department. Oil was cheap then.

From time to time there was further talk about forming a department, but little action. Then, in October, 1973, came the latest Middle East war and the quadrupling of oil prices almost overnight. A Federal Energy Office was formed but not given cabinet-level clout.

Ford administration study

When lines of automobiles formed outside service stations, Congress took alarm and asked for a study of the desirability of setting up a cabinet-level energy department. The Ford administration launched such a study.

During the 1976 presidential campaign President Ford and candidate Carter both promised a full cabinet department to deal with energy.

Less than six weeks after Jimmy Carter's inauguration, he formally asked Congress to set up the department. It is widely believed in Washington that, if Gerald Ford had been elected, he would have acted similarly and in approximately the same time frame.

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Time for Decision on the Social Security Dilemma

Despite scheduled tax increases, the Social Security system is in desperate financial trouble. Congress is finally beginning to grapple with the situation

A LANDMARK development in the continuing escalation of Social Security taxes will take place next year.

The maximum tax paid by each worker—and matched by the employer—will break through the $1,000 level for the first time. It will be $1,075.85, to be exact, under provisions of existing law and possibly more, depending on congressional decisions about pending legislation.

This increase will be the 21st in a series going back to 1950. In that year the maximum tax rose to $45 after having remained at the $30 level since the system was launched in 1936.

Running out of money

Despite subsequent increases that have seen the ceiling reach $144 in 1960, $374 in 1970, and $965 this year, the financial structure of the Social Security system continues to deteriorate rapidly. [See "Will the Social Security System Bubble Burst?"—NATION'S BUSINESS, November, 1974.]

Putting the system back on a reasonably sound financial basis will be extremely costly for all Social Security taxpayers—employers, employees, and the self-employed.

Congress has only just begun to grapple seriously with the system's financial problems, which have been caused in large measure by earlier congressional actions expanding the scope and benefits of the Social Security system.

For the short term, the situation can be described with stark simplicity: The Social Security system is running out of money.

Tax collections have lagged behind benefit payments for the past three years. The deficits have been made up from reserve funds. But the reserves are now running out.

The old age and survivors' insurance trust fund will be unable to meet its obligations as early as 1983, even with tax increases already provided by law, in the absence of further shoring up by Congress. The disability insurance trust fund will be exhausted as early as next year without such congressional action. The health insurance trust fund will run into the red within the next decade.

Pay-as-you-go basis

While the trust-fund method of financing is used to operate these three principal Social Security programs, the entire system has become essentially a transfer operation, making it vulnerable to current economic conditions.

A recent report from the Congressional Budget Office explains:

"For the most part, the annual flow of tax payments earmarked for the trust funds is used to pay for the current flow of benefits. Thus, the Social Security system is essentially funded on a pay-as-you-go basis. The role of the trust funds is to provide a reserve to cushion temporary shortfalls in revenues and also to maintain public confidence in the stability of the program."

As the reserves disappear, the entire system becomes dependent on current tax levels to continue to meet its commitments. And these commitments are undergoing explosive growth.

Mind-boggling numbers

Since 1970 alone, the number of beneficiaries has increased 30 percent, with 33 million individuals now receiving payments. Cash payments under the old age and survivors' program and the disability program have soared from $32 billion to more than $75 billion in this period. The hospital insurance program, established a little more than a decade ago, is expected to cost $18 billion in the current fiscal year compared with $12 billion just two years ago.

For the long term, the numbers involved in the system's financial problems are even more staggering.

Just for starters, the cumulative deficit over the next 75 years is estimated at $5 trillion.

While today there are approximately 30 Social Security recipients for each 100 taxpayers, population trends will send the ratio down to 50 for every 100 over the next 75 years. This means that every two workers will have to pay enough taxes to make up benefits for one recipient.

Baby boom's retirees

As the Congressional Budget Office report puts it:

"The sizable population born during the post-World War II baby boom will start reaching retirement age after the year 2010. But at that point the working population will be composed, at least in part, of the groups born during the period of sharply declining fertility starting in the late 1960's. From now on fertility rates will, in large part, determine the size of the working population after the turn of the next century.

"Although fertility may not remain at its present low level, there have been significant changes in social and economic behavior that could cause future fertility to remain close to the current level. People are marrying later than they used to, and wives are increasingly likely to work.

"For these reasons, among others, some observers assume that the fertility rate will stay on a low plateau around the replacement rate level of 2.1 births per woman. Others believe a long-term rate close to 1.9 is more likely. In this latter case, even if the proportion of women who work continues to increase, there will be a decline in taxpaying workers to support Social Security beneficiaries."

Another major factor in the long-term problems of Social Security is the result of a change Congress made in the system in 1972.

This was the adoption of an automatic escalator that triggers an increase in benefits if the Consumer Price Index goes up three percent in a year.

Because of the way the escalator was applied to initial benefits at retirement, the congressional action produced a situation under which some retirees could wind up with Social Security benefits greater than their preretirement earnings.

A variety of proposals for dealing with both the short-range and long-range problems of Social Security have been pressed upon Congress.

What business proposes

The business community is proposing:

• Increase the Social Security tax rate, now 5.85 percent for both employers and employees, by .3 percent beyond the .2 percent boost already scheduled for next Jan. 1. If the ad-

OTHER CAPITOL HILL ACTION TO WATCH

Here is a status report on some major issues pending in Congress:

LABOR LAW

The AFL-CIO is pressing friendly members of the House for action this year on legislation that would put far more power of the federal government behind labor unions' organizing efforts in individual companies. The legislation would make it easier for unions to deny companies many of the legal rights they now hold in challenging attempts to organize workers.

Business views the legislation as a bid by organized labor, which has been losing ground with American workers, to shore up its faltering membership drives. [See "Business Fights Union Power Grab," *Nation's Business*, September, 1977.] Southern employers are particular union targets.

The AFL-CIO, providing most of the pressure for the legislation, hopes for House approval this session to generate enough momentum to win Senate passage early in 1978. A House setback this year would make it unlikely the Senate would even take up, much less approve, the bill next year.

MILITARY UNIONIZATION

Congress has decided to move ahead with legislation to ban unionization of members of the armed forces, despite a poll that has shown members of the American Federation of Government Employees, largest federal workers' union, to be strongly against union membership for the military. While the poll's outcome has eased pressure for immediate action by Congress, sponsors of the legislation believe the possibility of a unionized military could recur unless there is a specific prohibition in law.

FEDERAL SPENDING

Congress has approved a U. S. budget of $458.2 billion for the fiscal year beginning Oct. 1, with the deficit set at $61.2 billion. The size of the deficit is a major factor in growing business concern over the possibility of resurging inflation. Also feeding the inflation fears are government moves to force higher spending through energy taxation, proposed substantial increases in the minimum wage, and cargo-preference legislation. [See "A Proposal That Would Boost Oil Prices Further," page 66.]

CONSUMER AGENCY

Advocates of legislation that would create a Consumer Protection Agency are continuing to probe for additional grass-roots support. AFL-CIO leaders and the Ralph Nader organization have been urging individual citizens to write to their congressmen in favor of the legislation.

The campaign thus far has appeared to have had little impact on the principal source of opposition to creating the new agency—the widespread view in Congress that the general public is dead set against further expansion of the bureaucracy. No action on the bill is due before the 1978 session of Congress.

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ditional .3 percent were adopted, the tax would be 6.35 percent. The wage base, $16,500 this year, will go to $17,700 under existing law.

- Fix the self-employed tax rate at 1½ times the basic rate. The self-employed rate is now 7.9 percent, about 35 percent higher than the base rate.
- Correct the benefit formula to eliminate the unintended steep increase in initial benefits that will prove a greater and greater drain on the retirement system's resources if remedial action is not taken.
- Retain the present 50-50 division between employer and employee in payment of the Social Security taxes and reject proposals under which the employer would pay taxes on total payroll, rather than just on wages and salaries within the wage base.
- Reject proposals for easing present eligibility standards for disability insurance, the Social Security program most immediately threatened by insolvency.
- Extend Social Security coverage to groups not now covered, particularly federal, state, and local government workers.
- Eliminate the provision under which unmarried children of a deceased worker can continue drawing survivors' benefits up to age 22 if they are full-time students. The cutoff point is normally age 18. Social Security payments to students, $1.6 billion this year, are expected to reach $2.5 billion by 1982.

Robbing Peter to pay Paul

The business community also opposes continuing recommendations from organized labor and other sources to use general fund revenues to make up Social Security deficits.

The Chamber of Commerce of the United States told the House Ways and Means Committee in testimony on Social Security financing proposals:

"The use of general funds to help finance Social Security benefits would not restore financial soundness to the system; it would have just the opposite effect. Borrowing from one deficit to cover another deficit can hardly be described as a solution.

"Nor can it be dismissed as a mere juggling of figures on the books. General fund financing would involve raising income taxes, increasing the public debt, or cutting other budgetary expenditures. . . . With general taxpayer subsidies, benefits would increasingly be subjected to the 'needs considerations' typical of welfare programs. We doubt whether American workers want a welfare retirement program."

Survey of businesses

The National Chamber was also firm in its opposition to requiring employers to pay Social Security taxes on total payroll:

"This would violate the concept of equal employer-employee sharing of the cost of Social Security, which is fundamental to continued public support of the system."

A National Chamber survey of businesses of all sizes shows that 99 percent of executives responding favor continuation of the 50-50 tax sharing method, and the same percentage oppose use of general revenues to make up deficits.

About half the business executives say total-payroll taxing would add as much as 20 percent to their Social Security tax bills. The others estimate higher increases—as much as 100 percent or more.

Higher prices, lower wages

Asked how their companies would deal with the higher costs, the business executives say they would, in descending order of priority, increase prices, hold down wages, cut profit margins, defer hiring additional employees, and invest in labor-saving equipment. Most answers list more than one of these possibilities, and some cite all of them.

Continuing pressure on Social Security finances will impose the need for choosing between many alternatives.

Some people, for example, see an increase in the mandatory retirement age from 65 to 68 as one way to stem the flow of Social Security payments. Business believes, however, that raising the retirement age would introduce new problems, such as higher health insurance costs, while making a negligible contribution to the resolution of the Social Security system's other problems.

In the final analysis, the alternatives are those described by A. Haeworth Robertson, chief actuary of the Social Security system:

"Taxpayers must become accustomed to paying higher taxes for Social Security benefits unless benefits are to be reduced below current levels." □

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An interview with John McCright, Barney & Barney insurance agency, San Diego, California.

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A. I took my time to find the right system because once you choose one, you're married to it.

Q. **Was there a key feature in System III that appealed to you?**
A. Its versatility. It keeps our records—including our extremely important expiration lists. It handles our accounting functions and works with the sales force for marketing purposes.

Q. **Anything else?**
A. Yes, the General Ledger. It automatically updates our files, gives us current financial data, and saves us a tremendous amount of time. It also saves us time on training because it's so easy to use.

Q. **What about the future?**
A. As we expand, so does System III. It's very flexible. What's more, Lockheed has been attentive to our thoughts and acted promptly on our ideas.

Q. **Any last thoughts?**
A. Well, it's reliable and totally accurate. It's done everything we asked it to do. The price was right. I'd say the two years I spent searching was well worth it.

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Panama Canal: What Happens Next

PANAMA and the future of the canal that the United States built three generations ago across the Central American isthmus have been setting off more emotional debates throughout the country than any foreign policy problem since the war in Vietnam.

Should the U. S. Senate ratify two proposed treaties that gradually turn over the Panama Canal and its operations to the Republic of Panama? Or should the Senate reject the treaties and insist that the canal and the 533-square-mile Canal Zone which bisects the republic amount to sovereign American territory which the U. S. acquired in 1903 and holds in perpetuity?

Millions of Americans have strong opinions one way or the other. A sense of drama has built up across the country and dimmed the ideological and political boundaries that often separate Democrat from Republican, left from right. Even the military is divided on the issue.

Outcome in doubt

As the Senate moves toward a decision, expected early next year, it is difficult to predict the way the voting will go.

A long, hard fight faces protreaty forces, if for no other reason than the Constitution's requirement that, for a treaty with a foreign government to be valid, at least two thirds of the senators present must vote for ratification.

Further, protreaty forces face the job of convincing a majority of the House of Representatives to vote in favor of transferring federal property and territory.

Leading the advocates of ratification is President Jimmy Carter. He is the seventh consecutive President—including four Democrats and three Republicans—to urge that new agreements with the Republic of Panama be reached which would loosen America's ties to the canal and to the zone.

Also actively favoring ratification are the only two living former Presidents, Gerald Ford and Richard

Narrowness of locks means many ships cannot use the canal. In four years two major U. S. Navy ships passed through. Other navies used the canal more often.



President Jimmy Carter and Gen. Omar Torrijos Herrera signed treaties providing for a gradual turnover of the Panama Canal to Panama as scores of Western Hemisphere leaders watched. Now comes a ratification fight on Capitol Hill.

Nixon; influential representatives and senators; a large segment of the business community, including many oil-producing and shipping companies; the AFL-CIO's Executive Council and United Automobile Workers leaders; such foreign affairs and national security experts as former Secretaries of State Henry Kissinger, William Rogers, and Dean Rusk; and the military service commanders who are presently members of the Joint Chiefs of Staff.

Outspoken opponents

Among the most outspoken opponents of ratification are Sens. Strom Thurmond (R.-S. C.) and Jesse A. Helms (R.-N. C.), whose views on the issue are shared by scores of senators and representatives; former California Gov. Ronald Reagan; four former chiefs of naval operations; and Robert Charles Smith, national commander of the 2.7 million-member American Legion. The Legion is conducting a letter-writing campaign against ratification. Several other veterans' groups also oppose the treaties, as do several conservative organizations.

Polls indicate that most citizens are on the antiratification side. President Carter admits that mail to the White House is running against ratification.

"This is one of those items that fall on the shoulders of leaders, which is not a popular thing," the President says. "Many American citizens, well-educated and very patriotic, think the treaty is not a good idea.

"To change their concepts is my responsibility—not to cajole, not to pressure, but, in a way, to educate, to lead."

What the treaties would do

It took 14 years for U. S. and Panamanian negotiators to come to agreement on the two treaties. The chief U. S. negotiators in recent years have been Ambassadors Ellsworth Bunker, a veteran career diplomat, and Sol M. Linowitz, onetime chairman of Xerox Corp.

The basic treaty would transfer operations and day-to-day control of the canal and the zone to Panama in increments. The process would be completed by the year 2000. Until then the U. S. would have primary responsibility for the canal's defense and have access to all land and water areas and installations necessary for that defense.

A separate treaty calls for the U. S. and Panama to provide for permanent neutrality of the canal, including nondiscriminatory access and tolls for merchant and naval vessels of all nations.

However, U. S. and Panamanian warships would have expeditious passage through the canal at all times.

Ambassador Bunker says the second treaty also assures that "our continuing freedom of action to maintain the canal's neutrality will not be limited by the treaty." This indicates



Old Glory and the Panamanian flag fly peacefully over headquarters of the Panama Canal Co. In 1964 rioting broke out over the issue of which flags could be flown. Twenty-four persons died. The violence spurred moves for new treaties.

that the U. S. intends to keep the canal neutral regardless of prevailing world conditions.

Between the present and the year 2000, five Americans and four Panamanians would act as a board of directors for the canal. Administrative leadership would shift from Americans to Panamanians in 1990.

Panamanians, meanwhile, would participate increasingly in the canal's operations at all levels.

No treaty provisions call for Congress to appropriate additional public money. Instead, Panama would receive funds from canal revenues and other sources.

The size of these funds would largely be predicated on the amount of ship tonnage passing through the waterway, and they would come to a great deal more than the republic has been receiving in tolls and from the U. S. in grants and gifts and through assistance pacts.

Program of loans

In addition to a fixed 30 cents per Panama Canal ton transiting the Canal, Panama would get a fixed annuity of $10 million and up to another $10 million yearly out of canal revenue. (A Panama Canal ton is not a unit of weight. It is a measure of space equal to 100 cubic feet of cargo-carrying space, or in the case of a passenger ship, 100 cubic feet of revenue-earning space.)

The U. S. also pledges to try to arrange for Panama a program of loans, loan guarantees, and credits which would be implemented over the next several years under existing statutes. This economic cooperation program would require up to $200 million in Export-Import Bank credits, up to $75 million in Agency for International Development housing guarantees, and $20 million in Overseas Private Investment Corp. loan guarantees.

In addition, Panama would receive up to $50 million in foreign military sales credits during the next ten years under existing statutory programs. The credits would be used to purchase U. S. goods and services in order to improve Panamanian defense capabilities.

Private businesses in the Canal Zone would continue their operations on the same terms that prevail elsewhere in the Republic of Panama.

U. S. citizens working in the Canal Zone would continue in their jobs until retirement. There would be a gradual reduction in U. S. employees and a gradual increase in Panamanian employees. The rights of U. S. citizens would be protected.

Panama would assume general territorial jurisdiction over the present zone when and if the treaties are approved by an early referendum in Panama and in the U. S. Congress. Panama would then gradually assume judicial jurisdiction over Americans working in the zone who are accused of crimes, although such Americans would be permitted to serve sentences in the U. S. if convicted.

New canal to be pondered

Looking far into the future, the U. S. and Panama agree to jointly study the feasibility of a sea-level canal. If they agree that such a canal should be built, they would negotiate mutually agreeable terms for construction. In addition, the U. S. would have the right to add a third lane of locks to the existing canal.

Businessmen favoring ratification cite three reasons for their position. They are:

1. Given the nature of the 1903 treaty—which most Americans now acknowledge was heavily weighted against Panama and toward the U. S.—and of Panamanian nationalism—which is running high—the new treaties are considered the best way to assure U. S. operation and effective U. S. control between now and 2000. Otherwise, it is feared that relations between the two countries will degenerate and that the efficiency of canal operations will consequently be impaired.

2. Many business executives do not consider the canal as strategic a military facility as it once was. Since World War II, the U. S. Navy has maintained separate Pacific and Atlantic fleets; hence, the ability to transfer ships from one ocean to another is no longer as significant as it was decades ago. Several large aircraft carriers are too broad to transit the canal, anyway, although they represent only a small percentage of U. S. Navy ships. The same is true for commercial oil tankers—only a small percentage of the world's tankers are too large for the canal.

3. Business organizations, especially those with activities in Central and South America, are eager that no further strains be placed on U. S.-Panama relations. Many busi-

The U. S. Navy's amphibious assault ship "Tarawa" barely clears a canal lock.



The Ultimate Tax Shelter



by
TED NICHOLAS

Tax experts are now referring to a small, privately owned corporation as "The Ultimate Tax Shelter." This is especially true since the passage of the Tax Reform Act of 1976. This law makes most former tax shelters either obsolete, or of little advantage. Investments affected include real estate, oil and gas drilling, cattle feeding, movies, etc. These former tax shelters have lost their attractiveness. Aside from that, these tax shelters required a large investment. Only a small segment of the population could benefit from them.

I've written a book showing how you can form your own corporation. I've taken all the mystery out of it. Thousands of people have already used the system for incorporation described in the book. I'll describe how you may obtain it without risk and with a valuable free bonus.

A corporation can be formed by anyone at surprisingly low cost. And the government encourages people to incorporate, which is a little known fact. The government has recognized the important role of small business in our country. Through favorable legislation incorporating a small business, hobby, or sideline is perfectly legal and ethical. There are numerous tax laws favorable to corporate owners. Some of them are remarkable in this age of ever-increasing taxation. Everyone of us needs all the tax shelter we can get!

Here are just a few of the advantages of having my book on incorporating. You can limit your personal liability. All that is at stake is the money you have invested. This amount can be zero to a few hundred or even a few thousand dollars. Your home, furniture, car, savings, or other possessions are not at risk. You can raise capital and still keep control of your business. You can put aside up to 25% of your income tax free. If you desire, you may wish to set up a non-profit corporation or operate a corporation anonymously. You will save from $300 to $1,000 simply by using the handy tear-out forms included in the book. All the things you need: certificate of incorporation, minutes, by-laws, etc., including complete instructions.

There are still other advantages. Your own corporation enables you to more easily maintain continuity and facilitate transfer of ownership. Tax free fringe benefits can be arranged. You can set up your health and life insurance and other programs for you and your family wherein they are tax deductible. Another very important option available to you through incorporation is a medical reimbursement plan (MRP). Under an MRP, all medical, dental, pharmaceutical expenses for you and your family can become tax deductible to the corporation. An unincorporated person must exclude the first 3% of family's medical expenses from a personal tax return. For an individual earning $20,000 the first $600 are not deductible.

Retirement plans, and pension and profit-sharing arrangements can be set up for you with far greater benefits than those available to self-employed individuals.

A word of caution. Incorporating may not be for you right now. However, my book will help you decide whether or not a corporation is for you now or in the future. I review all the advantages and disadvantages in depth. This choice is yours after learning all the options. If you do decide to incorporate, it can be done by mail quickly and within 48 hours. You never have to leave the privacy of your home.

I'll also reveal to you some startling facts. Why lawyers often charge substantial fees for incorporating when often they prefer not to, and why two-thirds of the New York and American Stock Exchange companies incorporate in Delaware.

You may wonder how others have successfully used the book. Not only a small unincorporated business, but enjoyable hobbies, part time businesses, and even existing jobs have been set up as full fledged corporations. You don't have to have a big business going to benefit. In fact, not many people realize some very important facts. There are 30,000 new businesses formed in the U.S. each and every month. 98% of them are small businesses; often just one individual working from home.

To gain all the advantages of incorporating, it doesn't matter where you live, your age, race, or sex. All that counts is your ideas. If you are looking for some new ideas, I believe my book will stimulate you in that area. I do know many small businessmen, housewives, hobbyists, engineers, and lawyers who have acted on the suggestions in my book. A woman who was my former secretary is incorporated. She is now grossing over $30,000 working from her home by providing a secretarial service to me and other local businesses. She works her own hours and has all the corporate advantages.

I briefly mentioned that you can start with no capital whatsoever. I know it can be done, since I have formed 18 companies of my own, and I began each one of them with nothing. Beginning at age 22, I incorporated my first company which was a candy manufacturing concern. Without credit or experience, I raised $96,000. From that starting point grew a chain of 30 stores. I'm proud of the fact that at age 29 I was selected by a group of businessmen as one of the outstanding businessmen in the nation. As a result of this award, I received an invitation to personally meet with the President of the United States.

I wrote my book, **How To Form Your Own Corporation Without A Lawyer For Under $50**, because I felt that many more people than otherwise would could become the President of their own corporations. As it has turned out, a very high proportion of all the corporations formed in America each month, at the present time are using my book to incorporate.

Just picture yourself in the position of President of your own corporation. My book gives you all the information you need to make your decision. Let me help you make your business dreams come true.

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Soft-spoken Ambassador Ellsworth Bunker, a veteran diplomat-negotiator, once was a businessman. His wife is a State Department official.



Former Xerox Chairman Sol Linowitz left business for public service. A lawyer, he was U. S. ambassador to the Organization of American States.

ness leaders, as well as military leaders, say they fear that guerrilla warfare would break out in Panama if the treaties are not ratified and that the Canal Zone would be difficult to defend adequately.

Fostering support

White House assistants have been assigned to work with national business leaders in fostering support for the treaties. Other White House assistants are working through political and business leaders in states, especially in the Southeast and Southwest, where many companies which use the Panama Canal for shipments are located.

The White House has had a major lobbying operation going on among senators and representatives who initially did not favor ratification.

President Carter is planning a fireside chat which would be primarily designed to get voters to put pressure on their congressmen to vote for ratification. As the fight over the treaties has heated up, there has been a variety of claims and disclaimers, charges and countercharges.

FACTS AND FIGURES ON THE PANAMA CANAL

Size—51 miles long in a ten-mile-wide zone.

Cost—$387 million when completed in 1914.

Current book value—$561.5 million.

Unrecovered U. S. investment—$752 million.

Financial conditions — Since 1951 the canal has been required to meet its own operating costs. Since 1973 it has not done so, and tolls recently were raised for the first time.

Defense—The U. S. maintains seven military bases and 9,300 military personnel in the Canal Zone.

Work force—13,139, of whom 27 percent are Americans. Most of the others are Panamanians.

Ship traffic—In 1920, 2,400 ship transits were made; in 1940, 5,400; in 1960, 10,800; and in 1975, 13,600.

Major canal users—Liberian-flag ships made 14.3 percent of transits in 1975; British-flag ships, 10.1 percent Japanese-flag ships, 9.0 percent; Greek-flag ships 8.4 percent, and U. S. ships, 8.1 percent.

The hardest-working spokesmen for ratification have been treaty negotiators Bunker, 83, and Linowitz, 63. They have doubled back and forth across the United States as well as to and from Panama for months, often appearing before hostile groups.

Answering critics

"The claim by those who oppose the treaties that the Panamanians will close the canal to spite the U. S. is incorrect," Ambassador Bunker says. "The canal benefits Panama, and the U. S. will remain a big user.

"Another point is that the canal is needed for transshipments of Alaskan oil to Atlantic ports. If there is guerrilla warfare in Panama over nonratification of the treaties, this waterway could be threatened.

"Ambassador Linowitz and I are convinced that the greatest threat to the operation and security of the canal would be to try to insist on the retention of the present outmoded treaty in the face of increasing Panamanian discontent.

"The canal issue involves much more than the relationship between the U. S. and Panama. It is an issue which affects all Latin American-U. S. relations. The problem also significantly affects the relationship between our country and the entire Third World. To the developing countries, the present status of the Canal Zone is an outmoded relic of a bygone imperialist age.

"If we can reach a fair and mutually satisfactory solution with Panama, we will therefore significantly enhance our position in the Western Hemisphere and in the world at large.

"In negotiating the new treaties, the U. S. proceeded on the basis that its national interests lie in assuring that the canal continues to be efficiently operated, secure, neutral, and open to all nations on a nondiscriminatory basis."

Arguments against treaties

Others, including some business people, who oppose ratification charge that:

1. Panama is a politically unstable nation with a left-wing military government. The Panamanians cannot be expected to operate the canal responsibly.

2. By turning over the canal to the Panamanians, the U. S. would, in the eyes of the world, appear to be retreating further from positions



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of power. There would also be the feeling that the U. S. was giving in to blackmail by the Panamanians.

3. The canal is U. S. property, built, and paid for by the U. S. Why should the U. S. give it up?

The No. 1 exponent of No. 3 has been former Gov. Reagan, who has widely sounded the "bought, built, paid for" call.

The sovereignty question

Many opponents of ratification claim that the Canal Zone is sovereign American territory under the 1903 treaty. This is disputed by Ambassador Bunker, who says: "Under the 1903 treaty, Panama granted the U. S. total control of the canal's operation and defense. Panama also granted the U. S. the right to exercise all power and authority which it would have if it were the sovereign."

This, he emphasizes, is different than actual sovereignty.

Opponents of ratification point out that the old treaty gave the U. S. sovereignty rights "in perpetuity." Proponents of ratification argue, however, that it is impractical to expect any agreement to last forever.

Mr. Reagan recently broadened his attack on President Carter and the protreaty forces when he said: "Human rights criticism has been leveled at a number of nations in the Western Hemisphere which have always been friendly toward us; yet I cannot recall a single word of criticism by any representative of our government toward Panama in this regard."

He was referring to charges of violations of oppression by the head of Panama's government, Brigadier Gen. Omar Torrijos Herrera.

Undermining Panama?

Sen. Thurmond takes a broadly pessimistic view of transferring the zone and canal to Panama.

"If the canal is given away, the entire economic and political structure of Panama, as an independent country, would be undermined," he says. "Rival factions within the Panamanian government would be tempted to take over the government by coup in order to control the canal and its revenue.

"Moreover, communists and leftists would seek to control the present government in order to make the canal an instrument of communist policy. Instead of stabilizing the situation in Panama, the new treaty would almost certainly destabilize it."

Sen. Thurmond has criticized Gen. Torrijos repeatedly, charging that he has made Panama dependent on Cuban military training and has visited communist leader Fidel Castro in Havana and Col. Muammar el-Qaddafi, the erratic left-wing dictator of Libya.

The defense question

The senator, who is a reserve U. S. Army general, derides claims that the Canal Zone is indefensible.

"They say that the canal is highly vulnerable to sabotage and that the defense of the canal is dependent upon the goodwill of the Panamanian people," he notes. "No doubt the goodwill of the Panamanian people is very important to the defense and operation of the canal, but there is no question that we could defend it, if proper precautions were taken, no matter what happened in Panama. After all, the canal was well-defended during World War II when Nazi spies and saboteurs roamed

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throughout many countries in Latin America."

Sen. Thurmond has helped circulate a letter sent to President Carter by former Chiefs of Naval Operations Robert B. Carney, Arleigh A. Burke, George W. Anderson, and Thomas H. Moorer. The letter said that the canal is still of vital importance to U. S. commerce and defense; that the leadership in Panama is friendly with Cuba, which in turn is a client state of the Soviet Union; and that the canal can be defended.

Instead of turning the canal over to the Panamanians after the grace period, Sen. Thurmond and others on Capitol Hill advocate increasing the money that presently goes to the Republic of Panama from various sources and turning over to the republic all lands in the zone that are not needed by the U. S. for operations and defense.

Born in controversy

The Panama Canal was born in controversy.

If anyone is the father of the canal, it is President Theodore Roosevelt, who advocated carrying a big stick and actually swung one when he made certain that Panama, then a province of Colombia, could break away from the Bogota government. The President wanted a ten-mile-wide swath through Panama, and to make certain he got it, he sent units of the U. S. Navy to Colombian waters to show the U. S. flag and to back up a Panamanian revolt.

On Nov. 18, 1903, two weeks after the revolt ended in success, the U. S. signed a treaty with the Republic of Panama. The young nation, in appreciation for U. S. help in the past and promises of help in the future, turned over to the U. S. a ten-mile zone bisecting the republic.

The canal opened on Aug. 15, 1914, almost simultaneously with the start of World War I in Europe.

From the beginning, there were outcries of colonialism from Latin Americans. Colombia, of course, complained loudly about the loss of Panama. And the presence of the American flag and so many Americans in a territory in the heart of Panama proved a sore spot to Panamanians.

In 1964 fighting broke out in the Canal Zone over the issue of flying the Panamanian flag in the zone. Twenty Panamanians and four Americans were killed, and Panama broke diplomatic relations with the U. S.

President Lyndon B. Johnson consulted with former Presidents Harry Truman and Dwight Eisenhower about Panama, just as President Carter has now consulted with his living predecessors. Bipartisan support was achieved then, as now. President Johnson oversaw three draftings of treaties which would have eventually turned over control and ownership to Panamanians. Talks with the Panamanians got nowhere and were broken off. The drafts were never presented for ratification.

U. S. veto in UN

Talks resumed in 1971. Two years later the U. S. vetoed a United Nations Security Council resolution supporting a Panamanian claim that the U. S. should give up the canal. In 1974 negotiations began again.

Now protreaty forces in Washington are predicting a hard fight, but eventual victory for their side. Antitreaty forces say that President Carter is out on a limb longer than the 51-mile-long canal and that they will saw it off behind him. □



By VERNON LOUVIERE, Senior Editor

How Your Know-How Can Save Private Colleges

IN YEARS GONE BY business executives generally served as trustees of private colleges and universities for the sheer honor of it.

Today, and in years to come, these executives may provide the one element necessary to save many of these same educational institutions—business expertise.

That is the opinion of Richard R. Shinn, president and chief executive officer of the Metropolitan Life Insurance Co., who says:

"The 1970's have brought new problems to independent colleges, thrusting upon their trustees more important, even crucial, responsibilities—responsibilities which business people are particularly well equipped to handle."

Mr. Shinn, who is a trustee at both Notre Dame and Fordham universities, believes that business executives have an obligation to lend their talents and energies to preserving these private institutions.

"Many trustees—and particularly those drawn from the senior ranks of business executives—have extensive practical experience in budgeting, accounting, portfolio management, and other skills not ordinarily found in an academic institution's ranks and can help reshape and develop university policy in these areas," he points out.



Richard R. Shinn urges executives to help an endangered species.

"If these institutions are to survive the coming decade, they must develop long-range plans encompassing educational goals, effective marketing strategies, and sound financial programs."

Because education is becoming almost as restricted by federal and state regulations as is industry, Mr. Shinn says, trustees from the business world can provide considerable guidance. These schools, for example, more and more are wrestling with federal regulations involving employee retirement insurance, occupational health and safety, and equal employment opportunity.

The need for involvement of businessmen is more than altruistic since the college campus provides most of business' future managers. Also, business executives are in a position to see that college programs are better related to career opportunities, Mr. Shinn says:

"We have too many instances of individuals who have been trained for careers that no longer exist and of career opportunities going unfilled because there are no qualified college graduates to fill them."

Emphasizing that "reluctant involvement" by businessmen in college affairs is not enough, Mr. Shinn adds:

"If we business people do not get involved, our neglect will expose one more area to possible inordinate governmental regulation." •

A Revolution in the Teaching of Business

If some newly graduated collegian calls on a prospective employer and says, "I have the information at my fingertips to help you run your business," he may literally be telling the truth.

The information is stored in a programmable calculator which fits comfortably in the palm of the hand.

At the Cornell University Graduate School of Business and Public Administration, the programmable calculator has become an indispensable teaching tool and is expected to be issued to every student in the school in the next year or so. Some models now in use cost as little as $200, or about what Cornell has been spending for time-sharing on a computer for students to solve a single problem in business management.

"The programmable calculator will create a revolution in university level teaching," Edward T. Lewis, associate dean of the Cornell school, says.

"Programmable calculators will allow professors to move from the teaching of concepts to the discussion of making decisions based upon those concepts.

"This is revolutionary because all too often MBA (master of business administration) education stops at the concept. Students don't have the time to learn how these concepts apply to real managerial problems."

Here's an example of how the calculator is used in the classroom.

David M. Ahlers, associate professor of finance at the Cornell school, is teaching a course in bond investments to a bank management class. Normally, this would require three or four class sessions, limited to simplified, textbook examples. Now, with a programmable calculator, all of the basic material can be covered in one session and the remainder of the time is spent by the students going through the exercise of buying bonds.

"Actually, all of the basic material we teach can be contained on a $20 chip or integrated circuit much smaller than a dime," Mr. Ahlers explains. "And that's the equivalent of a three-foot stack of textbooks."

Mr. Ahlers says he sees the day when graduates will be able to enter the business world with a wide range of business concepts, each contained on a tiny chip, to use in their work. Chips could be revised from time to time so that graduates could stay abreast of new managerial concepts. □

Financial planning in a complex world

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CARGO PREFERENCE

A Proposal That Would Boost Oil Prices Further

President Carter is pressing for legislation that many of his own advisers oppose



PHOTO: CONTINENTAL OIL CO.

Cargo preference legislation now pending in Congress would work against highly efficient tankers like this one, owned by a U. S. company but registered in Liberia.

ONE of President Carter's first assignments for his Economic Policy Group, comprised of cabinet members concerned with economic issues, was a study of the advisability of an oil cargo preference policy.

Under such a policy, a specified percentage of oil imports would have to be carried in American-registry tankers. Largely as a result of union demands over the years, crew members on U. S. vessels are the highest paid seafarers in the world, and operating costs of American-flag vessels are more than twice those of foreign ships.

Unanimous recommendation

The Economic Policy Group came back with a unanimous recommendation that the President oppose oil cargo preference legislation.

Mr. Carter ordered still another study of the issue, and various government agencies were asked for their views.

The Council of Economic Advisers said that oil cargo preference would increase unemployment and damage the overall economy. The Office of Management and Budget said cargo preference would be inflationary, would invite retaliation from other nations, and would be difficult to administer.

The State Department said that cargo preference would not benefit national security, and the Defense Department could find no national-security reasons for supporting preference legislation.

A memo to President Carter from key White House advisers reported:

"Many members of our administration, including [Council of Economic Advisers Chairman] Charlie Schultze, [Treasury Secretary] Mike Blumenthal, and [Under Secretary of State for Economic Affairs] Dick Cooper feel that no version of cargo preference is acceptable. They feel that the principles involved cannot be breached.

"They argue that the economic costs of cargo preference outweigh its benefits. Moreover, they feel that even a modest cargo preference bill entails a dangerous precedent that may later be extended by Congress or imitated by other nations."

Only the Commerce Department, whose Maritime Administration administers the extensive program of federal subsidies for construction and operation of U. S.-flag merchant vessels, and the Labor Department, which traditionally presents the views of organized labor in administration policy deliberations, expressed support for cargo preference.

Jobs for seafarers

Despite the preponderance of opposition to cargo preference among his chief advisers, Mr. Carter announced in late June that he supports oil cargo preference legislation. Under the approach supported by the President, the percentage of oil imports that would have to be in American vessels would begin at 4.5 percent immediately and go to 9.5 percent by Oct. 1, 1982.

Robert J. Blackwell, assistant secretary of commerce for maritime affairs, represented the Carter administration in testifying before the House merchant marine subcommittee. He outlined the administration's position, which he said was aimed at

"enhancing our national defense posture" and "providing an opportunity for jobs for our seafarers."

Mr. Blackwell estimated the cost impact would begin at $110 million a year at the lower preference level, and eventually reach $180 million at the 9.5 percent figure, or a total in the range of $400 million to $500 million by 1982.

The cargo bill is being attacked by business, consumer, and other groups angered by a move that would raise imported oil prices already pushed to high levels by the Organization of Petroleum Exporting Countries. These groups are alerting the public to the fact that cargo preference could later be sought for other commodities, resulting in price increases for such goods, too.

Enactment of the current bill would establish the first cargo preference arrangement for private, commercial imports. Existing law provides for cargo preference on military and other government-ordered shipments, including oil imported for the new strategic petroleum reserve, and on all shipments between U. S. ports.

In addition to the dispute over economic factors, there has been bitter political controversy based on allegations that presidential and congressional support for the bill is a political payoff.

Opposition to the bill

Opponents of the preference legislation are urging members of Congress to consider all factors before voting on the bill.

The General Accounting Office, Congress' own fiscal watchdog agency, estimates that the cost of the legislation would begin at $550 million a year, five times the $110 million low estimate advanced by the administration, and could reach $610 million.

The American Petroleum Institute, whose membership includes companies that own and operate or charter nearly all U. S.-flag tankers, as well as many ships under foreign registry, says cost of the legislation to consumers by 1982 would be more than $5 billion, or ten times the Commerce Department estimate, and the total cost through 1985 would be nearly $10 billion.

API says: "The annual cost in 1985 is equivalent to a cost of about $4.74 per barrel or 11.2 cents per gallon on oil imported in cargo preference vessels."

While the Commerce Department says the legislation would make possible the creation of 3,600 additional seagoing jobs at a cost of $50,000 per job, API says: "The actual cost of these 3,600 seafarers' jobs will be approximately $440,000 per job per year. For purposes of comparison, the ratio of the 1976 GNP to total civilian employment yields an average cost of $19,340 per job. Clearly this legislation would be inflationary and result in a net reduction in jobs throughout the economy."

The Federation of American Controlled Shipping, which represents U. S. companies that control 31 million deadweight tons of tankers and other vessels under Liberian and Panamanian registry, declared that, "even if Mr. Blackwell's testimony is taken at face value, his national defense argument is a sham."

"Modified cargo preference," the federation said, "is an open invitation to the oil exporting countries to adopt similar cargo preference measures of their own and thus assume control over a substantial part of the Free World's tanker fleet. If this happens, the fact that we could carry 4.5 to 9.5 percent of oil imports in our own national-flag vessels will provide little or no solace, particularly in the event of an OPEC boycott or other national emergency. In this regard, it is hardly surprising that the Department of Defense has consistently and publicly opposed cargo preference on both national defense and national security grounds."

Meeting world competition

The Federation of American Controlled Shipping points out that its members' ships "are registered abroad as a way of meeting world competition on equal terms—something not possible under U. S. registry because of much higher construction and operating costs." The federation points out that vessels owned by its member companies "are

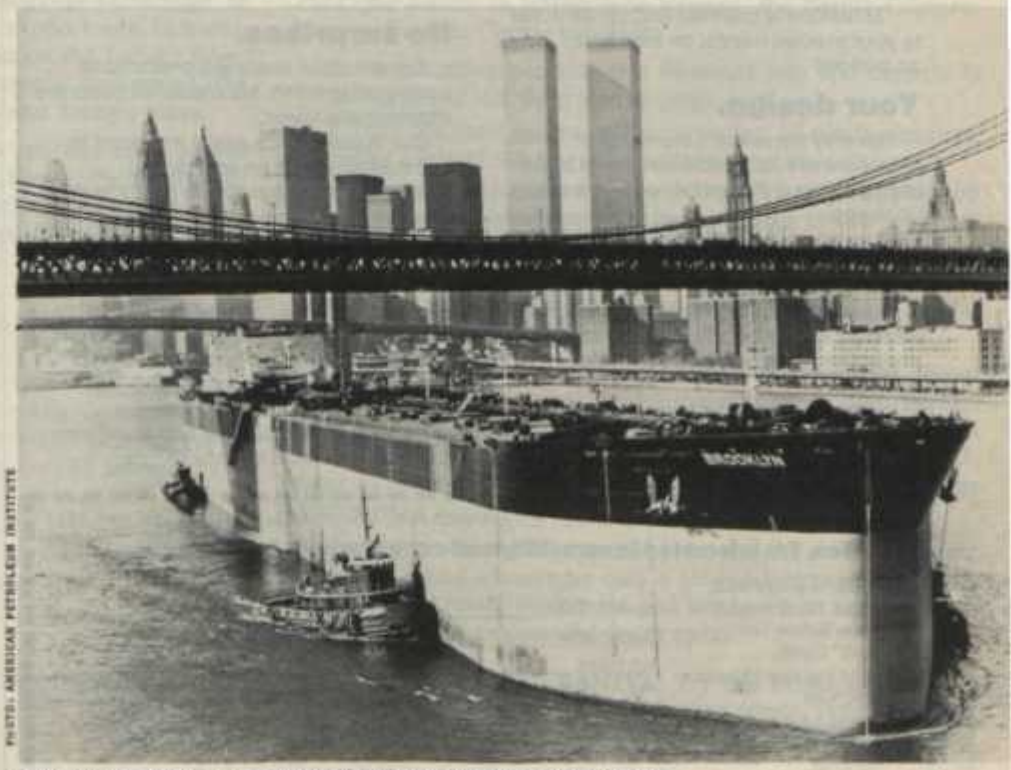
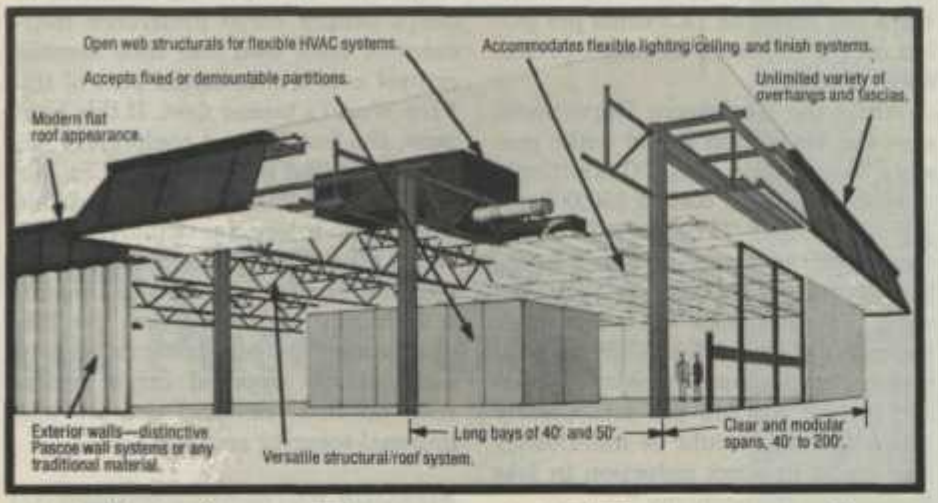


PHOTO: AMERICAN PETROLEUM INSTITUTE

Congress is debating a proposal to favor American-built ships for carrying oil imports at a time when government failure to permit construction of supertanker facilities prevents the "Brooklyn," largest ship ever built in this country, from being able to enter any U. S. port when fully loaded with oil.

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available to the United States in the event of war or national emergency through written commitments of the owners and agreement of the government involved." FACS members also own and operate about half the tonnage of the U. S.-flag tanker fleet.

European trading partners of the United States and Japan have joined in a statement to the Carter administration that cargo preference "is likely to have far-reaching and deleterious consequences" in the form of protective measures adopted by other countries.

The Chamber of Commerce of the United States said in a statement to congressional committees considering the cargo preference legislation that the bill would raise the price of imported oil to consumers; weaken established U. S. policy supporting free and fair international trade; set a precedent for extending U. S.-flag preference to other commercial imports and exports; add to government bureaucracy; and further increase an already unprecedented world surplus of tankers.

Charges that political considerations figured into the White House decision to approve cargo preference stem from the disclosure of internal documents discussing what position the President should take.

Maritime unions' view

Ambassador Robert S. Strauss, U. S. special representative for trade negotiations, said in a memorandum to the President:

"Politically, something in the way of a cargo preference is going to be very hard to resist. Other options don't serve or satisfy the political need and might even be counterproductive. The unions certainly feel that the administration is committed to a cargo preference policy."

The maritime unions, which supported Mr. Carter during the 1976 presidential campaign, had been seeking a 30 percent cargo preference, but welcomed the President's agreement to support a 9.5 percent level.

Ambassador Strauss had reported to the President that soundings among union leaders and congressional supporters of cargo preference had determined that "establishing the concept of cargo preferences is more important than the percentage." Critics of the legislation see that as a classic explanation of the foot-in-the-door approach. ☐



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EXECUTIVE TRENDS

Turning Idle Assets Into Cash

In Louisville, a major furniture maker moved out of a 570,000-square-foot factory. For two years the property was carried on the company's books as management tried unsuccessfully to sell it.

In Indianapolis, a sand and gravel company owned several mined-out tracts of riverfront property near downtown. This land, too, was an asset that earned no income.

"Billions of dollars worth of company assets are tied up in unused land or buildings," reports Howard P. Hoffman, president of Howard P. Hoffman Associates. The New York-based firm is a marketing organization that turns surplus corporate real estate into a salable product.

Companies own a lot of real estate.

In fact, real estate holdings represent 26 percent of all assets owned by U. S. corporations, the National Association of Corporate Real Estate Executives estimates.

Hoffman Associates drew up a marketing plan for the Louisville properties, dividing the space into smaller units for multiple use. The property was then leased for extra income.

The result: An income-earning property that was sold to an investor for $1 million more than book value and marketing costs.

The Indianapolis sand and gravel pits presented a different problem.

"Access was inconvenient," Mr. Hoffman says. "Worse, the land was on an undefined flood plain under control of the Corps of Engineers.

"Finally, the zoning was for agriculture and mining. That had to be changed."

Nevertheless, the site seemed ideal, Mr. Hoffman says, for garden apartments. "It was near downtown, and it had a little Venice setting created by ponds left by mining and the adjacent river."

Negotiations with city, state, and federal officials removed the zon-

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ing headache and other stumbling blocks.

"Then, to avoid getting the corporation bogged down in real estate development," Mr. Hoffman says, "a joint venture was formed with an experienced developer."

The result: The mining company got cash—20 times what it had previously been offered, plus 50 percent of the continuing rental income.

What SEC Files Reveal About Companies

Corporations don't send merely a trickle of cut-and-dried financial data to Washington.

If they sell their stock to the public, the Securities and Exchange Commission requires the companies to file bushels of information that is available for perusal by deadly rivals or the merely inquisitive.

Here are some of the things that a firm which specializes in searching SEC files found for clients:

- Names of ten corporations that sold subsidiaries to officers within the companies. The information was needed by a big law firm.
- A list of all meat processing companies with annual sales of more than $500 million. The list was wanted by a conglomerate on the prowl for acquisitions.
- Names of companies that have carpet manufacturing subsidiaries in Belgium and England. The names were needed by an accounting firm.
- Names of capital goods firms that have set up captive finance companies, sought by a Massachusetts computer-equipment maker.
- A nuclear fuel contract, buried in a competitor's registration statement, wanted by a major chemical company.

The information was turned up by Disclosure, Inc., of Bethesda, Md. The material was obtained from a data bank of more than 500,000 documents that Disclosure, Inc., has catalogued and reproduced for SEC, under contract, since 1968.

More than 100,000 reports a year are filed with SEC by some 11,000 publicly held companies in the United States, says Steven I. Goldspiel, executive vice president.

For a fee, Disclosure, Inc., makes a computer search and furnishes copies of documents on microfiche. Each microfiche holds up to 60 pages of printed information.

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3. Its elegant styling will compliment any attire – and elicit compliments from your associates and friends.
4. At this price you cannot find a better buy.
5. One day you will have a critical need to be reminded of a vital appointment – and then, having used the alarm function once, you will never again return to any other reminder system.
6. Why buy an ordinary watch when you can own a MICRO-ALARM?



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THE ALARM
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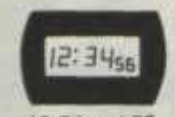
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• The average working woman fritters away only 35 minutes a day on these scheduled or unscheduled work breaks.

• The woman puts in more effort, as well as more time. A "work effort scale" shows that women give the job 112 percent more effort than men.

Who works hardest of all?

Married men, the institute reports.

However, taking together time spent on the job and effort expended, unmarried women rank highest. Married men may work harder, but they spend more time coffee-klatching than the single women. □

Reprints are available of the following articles in this issue:

"The Growing Furor Over Noise Regulations" **page 16**

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EDITORIAL

A New Look at Future Federal Spending: Disturbing Trend

THE IMPORTANT BENEFITS resulting from the adoption of the Congressional Budget Reform Act of 1974 include a long-overdue emphasis on long-range spending and revenue trends.

In the past, budget totals for a given fiscal year were usually compared with those of the prior fiscal year. That limited perspective made it possible for concerned taxpayers to determine where federal spending stood currently, but not where it was going.

While the goal of the budget reform law was to provide for congressional consideration of income and outgo as a total package, the legislation also requires the Congressional Budget Office to project federal spending five years into the future.

The information gleaned from such projections is both helpful and disturbing.

As the Congressional Budget Office said in announcing its most recent projections: "A longer term framework is helpful in making annual budget choices because these decisions frequently have little impact on the budget in the short run, but can significantly influence relative budget priorities over a period of several years."

The long-range trends are disturbing because they anticipate that federal spending will continue to escalate rapidly, or put another way, that government will continue to grow.

While the new federal budget for the fiscal year beginning this Oct. 1 is $458.2 billion, expectations are that spending will cross the half-trillion-dollar level in fiscal 1979-80 and stand at $586 billion in 1982.

The budget projections are particularly enlightening where they pinpoint the sources of the heaviest pressures for the increased spending that lies ahead.

Those sources are variously termed income security programs, entitlements, benefits to individuals, or transfer payments.

By whatever name, their function is to shift money taken from workers as taxes to other individuals.



The programs involved include Social Security, welfare, government retirement, unemployment assistance, veterans' benefits, food stamps, housing, health care, and other federal mechanisms for disbursing money to individuals.

The total of such payments, $184 billion in 1977, is expected to reach nearly $290 billion by 1982.

The Congressional Budget Office says:

"Outlays in this category are relatively uncontrollable even if current legislation remains unchanged, since these programs entitle individuals to benefits if they meet eligibility requirements."

Federal budget planners apparently have little trouble with the concept of massive spending that has gone out of control and seeks its own, ever-higher levels.

The beginning of the new fiscal year is a proper time to ask how long taxpayers will go along with that kind of thinking. □

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